

Office of the State Auditor

Semi-Annual Report

January - June 1992

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Commonwealth of Massachusetts

A. Joseph DeNucci, Auditor

Issue 11

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The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

STATE HOUSE, BOSTON 02133

A. JOSEPH DENUCCI
AUDITOR

TEL. (617) 727-2075

October 1992

His Excellency William F. Weld, Governor
His Honor A. Paul Cellucci, Lieutenant Governor
Honorable William M. Bulger, President of the Senate
Honorable Charles F. Flaherty, Speaker of the House of Representatives
Honorable Patricia McGovern, Chairwoman of the Senate Ways and Means Committee
Honorable Thomas M. Finneran, Chairman of the House Ways and Means Committee
Honorable Members of the General Court:

I am pleased to submit herewith the Semi-Annual Report of Audit Results and Activities of the Office of the State Auditor covering the period January 1, 1992 through June 30, 1992.

This eleventh report continues a format which organizes audit results by recurring findings within sectors of government to highlight systemic problems as well as broad areas in need of strengthening. The OSA also acknowledges, within each section, actions taken by agencies in response to previous OSA audit results and recommendations. Also included are legislative studies, mandate determinations, and fiscal reviews completed by the OSA's Division of Local Mandates. Finally, proposed and ongoing initiatives are included to inform officials and the public of significant audit activity.

I want to express my appreciation for your interest in and support for the work of the State Auditor's Office. With your assistance, internal controls in state agencies have been strengthened; the contract debarment law has been extended to cover vendors; and the OSA has been given authority to conduct audits of public college and university foundations. This last measure, which was included in budget language establishing guidelines for foundation activities, will help to ensure proper state oversight of higher education foundations. I would of course be pleased to answer any questions regarding the scope, impact, or implementation of these newly enacted initiatives.

I look forward to continuing to work with you to improve the quality, cost effectiveness, and accountability of state government and of the services that the Commonwealth provides to its citizens.

Sincerely,

A handwritten signature in dark ink, reading "A. Joseph DeNucci".

A. Joseph DeNucci
Auditor of the Commonwealth

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Office of the State Auditor
A. Joseph DeNucci, Auditor

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Office of the State Auditor: Authority and Responsibilities

The Office of the State Auditor (OSA) operates under the direction and control of the State Auditor, an independently elected constitutional officer.

The OSA provides the Governor, the Legislature, auditees, oversight agencies, and the general public with an independent evaluation of the various agencies, activities, and programs operated by the Commonwealth. The State Auditor is mandated, under Chapter 11, Section 12, of the Massachusetts General Laws, to conduct an audit at least once every two years of all departments, offices, commissions, health and higher education institutions, and activities of the Commonwealth, including its court system and Authorities. Not including special audit projects, the number of entities requiring audit coverage totals approximately 750. The Auditor also has authority to audit the thousands of vendors that contract with the Commonwealth and its instrumentalities, as well as federally aided programs. In addition, the Auditor is responsible, under Chapter 11, Section 6B, of the Massachusetts General Laws, for the Division of Local Mandates, which is charged primarily with determining the financial impact of legislation on cities and towns.

The OSA conducts financial, performance, and electronic data processing audits in accordance with "Government Auditing Standards" issued by the Comptroller General of the United States. These standards are known in the profession both as Generally Accepted Government Auditing Standards (GAGAS) and as the Yellow Book standards.

OSA audit activities include the following objectives:

- Attesting to the fair presentation, accuracy, and reliability of an auditee's financial statements;
- Determining whether the Commonwealth's resources are properly safeguarded;
- Determining whether such resources are properly and prudently used;
- Determining an auditee's compliance with legal and regulatory requirements;
- Evaluating the adequacy of an entity's internal control systems;
- Evaluating management's economy and efficiency in its use of resources;
- Determining and evaluating a program's results, benefits, or accomplishments; and
- Ensuring that all audit results are fully disclosed to the public and the auditees.

All OSA audit results and recommendations are intended to assist agency and program administrators by indicating areas where accounting and administrative controls, financial operations, program results, and efficiency and effectiveness can be improved, and by providing technical assistance where appropriate. An important component of most audits is the exit conference, during which the auditee is given an opportunity to respond to the audit and its recommendations. In short, the OSA is not simply a critic but is an agent, an advocate, and a catalyst for improved management and delivery of government services.

Audit Results, Recommendations, Initiatives, and Corrective Actions: Overview

During the report period January 1, 1992 through June 30, 1992, the Office of the State Auditor issued 134 audit reports covering: Authorities, human services agencies, education entities, judiciary/law enforcement entities, and various other state activities. For a complete listing of audit reports, see Appendix I on page 83. In these reports the OSA disclosed millions of dollars in financial and operational deficiencies and also provided recommendations intended to safeguard the Commonwealth's assets and to improve the effectiveness and efficiency of governmental operations.

Each type of entity audited by the OSA is governed by particular laws and regulations; is required to maintain financial records properly; and, of course, is expected to operate economically and effectively.

OSA audits are not intended to sensationalize, but rather to present an accurate appraisal of financial management, legal compliance, and, where appropriate, program effectiveness and efficiency.

Audit results and recommendations are important to auditees, and in a majority of instances auditees have indicated a willingness to take appropriate corrective actions. Audit results, viewed in the aggregate, give focus to problem areas for legislators and administration officials and, along with critical individual audit results, are the basis of the OSA legislative and administrative initiatives and recommendations.

The following information clearly demonstrates that OSA audits not only have promoted the safeguarding and enhancement of the Commonwealth's assets but have also assisted auditees in creating solutions to improve their financial and managerial operations.

Authority Audits

During the report period, the OSA released 91 audit reports relative to housing authorities, redevelopment authorities, and other independent entities. Forty-eight of these reports were federally mandated audits of state-administered federal and state programs. Many of these reports identified recurring audit results which, if addressed, will improve financial management of these Authorities. This improvement in turn will help to safeguard state and federal funding and to protect the interest of public housing tenants and applicants.

Audit Results

Housing Authorities and the Federal Single Audit Act

The federal Single Audit Act of 1984 created many opportunities for state governments to reduce duplication by using one audit to satisfy both federal and state requirements. The Commonwealth, for example, closes its books on June 30 each year, and a single audit is done jointly by the Office of the State Auditor and a private accounting firm.

New procedures developed by the OSA and authorized by Chapter 138 of the Acts of 1991 for the procurement and conduct of housing authority audits provide another example of the way in which the Commonwealth is improving the coordination and efficiency of the audit process. With the passage of Chapter 138, the OSA has the authority to prescribe state standards, in addition to any federal requirements, for audits of all housing authorities that receive federal financial assistance, whether conducted by the OSA or a private firm. As a result, accountability is strengthened, duplication is prevented, and costs are reduced. During the report period, the OSA released 41 single audits of housing authorities.

Inadequate Accounting and Administrative Controls

Adequate accounting and administrative controls assist an Authority in maximizing revenue potential and avoiding unnecessary operating deficits, thereby potentially increasing funds available for its programs. Several reports identified areas where accounting, recordkeeping, and other internal controls needed improvement. Examples include:

- Barnstable Housing Authority was cited in a previous audit for charging certain expenditures to the wrong account and spending beyond amounts budgeted for several accounts. During the current audit period, the Authority overspent \$14,903 in its Administrative Salaries Account. In addition, the Authority made an unauthorized transfer of \$20,000 in administrative salaries from a federally aided program to a state-aided program, thus increasing state expenses for administrative wages. This increased the budget overrun for one state-aided program to \$34,903. The Authority also overspent its Insurance and Employee Benefit accounts by \$32,568. As a result, the Authority reduced operating reserves for its state-aided programs and potentially created the need for additional state subsidies.

**Inadequate
Accounting and
Administrative
Controls**

Continued

- Barnstable Housing Authority was cited in a previous audit for making salary overpayments. During the current audit period, the Authority exceeded the Executive Office of Communities and Development's approved salary budget by \$23,097.
- Barnstable Housing Authority's financial statements contained errors and omissions. In addition, the Authority retained \$21,041 in a reserve payment account rather than appropriately distributing the funds to various program accounts. As a result, the Authority's financial statements did not reflect the actual cost of operations, and a number of audit adjustments were necessary to correct its account books and ensure that accurate financial data was submitted to the Executive Office of Communities and Development.
- Chelsea Housing Authority, while making considerable progress in correcting errors in its account books, still needed to resolve issues resulting from decisions to incur expenses without a commitment of program funds. For example, since 1988 the Authority expended \$140,727 in modernization project costs without approval from the Executive Office of Communities and Development. Similarly, the Authority had a deficit of \$34,293 due to overspending in its Public Safety Program. As a result, the Authority borrowed money from various accounts, including public housing funds; reduced operating reserves; and required additional state subsidies.
- Dalton Housing Authority retained \$10,015 in excess of Executive Office of Communities and Development guidelines for operating reserves, thereby preventing the use of this money to fund housing operations elsewhere.
- Haverhill Housing Authority allowed one employee to collect, record, and deposit tenant rent receipts. Weaknesses in monitoring collection activities, including this lack of segregation of duties, contributed to an environment in which more than \$27,000 was misappropriated over a three-year period. (See p. 64)
- Marshfield Housing Authority's check-writing policies, which did not comply with sound accounting principles, did not require two signatures on checks or the safeguarding of all checkbooks. These deficiencies contributed to an environment in which the former Chairman of its Board of Directors used \$850 in Authority funds to pay for personal insurance expenses. When questioned by the Executive Director, the Chairman returned the \$850, without interest, to the Authority. (See pp. 64, 65, 66)

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- Marshfield Housing Authority's former Chairman of its Board of Directors purchased materials and equipment totalling \$3,900 for which there was insufficient or no documentation. In addition, several items purchased were not in the custody of the Authority. As a result, the Authority's funds may have been improperly expended. (See pp. 64, 65, 66)
 - Marshfield Housing Authority overspent amounts appropriated for a construction project by \$73,918. This overrun was absorbed by other programs operated by the Authority, thus reducing operating reserves and increasing the potential need for increased state subsidies.
 - Norton Housing Authority filed late and inaccurate quarterly wage reports to the Internal Revenue Service. In addition, the Authority did not remit insurance premium payments to the Group Insurance Commission on a timely basis. As a result, the Authority risked incurring financial penalties and losing employee benefits.
 - Norton Housing Authority did not have a management plan for controlling administrative and operational functions. Such a plan is required by the Executive Office of Communities and Development (EOCD) in order to establish the basic framework for controlling administrative operations and as a tool for enhancing and evaluating performance. Moreover, until its Executive Director prepares and submits an acceptable management plan to EOCD, the Authority cannot become eligible for EOCD's Management Incentive Program.
 - Norton Housing Authority did not submit to the Executive Office of Communities and Development (EOCD) its fiscal year 1990 budget until a year after the original due date. Operating without an EOCD-approved budget impedes an Authority's ability to monitor its expenses and to operate within budgetary limits.
 - Norton Housing Authority did not have sufficient documentation to adequately support expenditures. For example, the Authority authorized payment for many services for which no vendor invoices had been submitted. In addition, the Authority did not use payment vouchers, forms attached to an invoice indicating what goods or services were received and detailing quantity and price. As a result, the Authority could not verify that its funds were properly expended and used as intended.
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**Inadequate
Accounting and
Administrative
Controls**

Continued

- Norton Housing Authority did not deposit rent receipts on a timely basis. In addition, rent deposits were not listed in its Cash Receipts journal by date or in chronological order, and a total of \$9,735 could not be traced from the Cash Receipts journal to bank statements. As a result of poor recordkeeping and delays in making deposits, the Authority risked the potential loss or misplacement of funds and also failed to maximize interest income.
- Springfield Parking Authority did not arrange for an audit of its federal Urban Development Action Grants totalling \$3,870,097 as required under federal law and regulations. The Authority claimed that, as a sub-grantee receiving federal funding from the City of Springfield, it was not responsible for seeking the audit. However, the Authority and the City of Springfield are both obligated, under federal grant requirements, to ensure that required federal audits are performed. As a result of its noncompliance with federal requirements, the Authority risked financial penalties and could not be assured that its federal grant monies were properly expended.

**Inadequate
Control over
Property and
Equipment**

Executive Office of Communities and Development (EOCD) regulations require that housing authorities conduct annual physical inventories of property and equipment, tag equipment, and annually update inventory listings. In addition to ensuring accountability for property and equipment, adequate inventory records serve as a source of insurance coverage information in the event of a casualty loss, as a basis of comparison with the previous year's physical inventory, and as financial planning data. Several reports identified areas where inventory controls needed improvement in order to adequately safeguard property and equipment and to protect these fixed assets from possible loss, theft, or misuse.

- Ayer Housing Authority followed appropriate procedures for controlling and safeguarding fixed assets except that it did not record the dollar value of its property and equipment and did not reflect the total value of inventory items on its financial statements.
- Brookline Housing Authority did not conduct a physical inventory of its property and equipment during the period under audit and did not maintain complete records of its fixed assets.
- Chelsea Housing Authority did not conduct a physical inventory during the period under audit, did not maintain adequate records of its fixed assets, and did not record the dollar value of its property and equipment.

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- Concord Housing Authority followed appropriate procedures for controlling and safeguarding fixed assets except that it did not record the dollar value of its property and equipment on its books of account and did not reflect the total value of inventory items on its financial statements.
 - Hadley Housing Authority did not conduct an annual physical inventory of its property and equipment and did not accurately report the value of its fixed assets on its financial statements.
 - Haverhill Housing Authority, in response to prior audit findings, had tagged and recorded the dollar value of equipment items. However, its master inventory listing was not updated to reflect new purchases, and its financial statements were not accurate with respect to fixed-asset values.
 - Lexington Housing Authority, while substantially improving its inventory controls, did not complete the valuation of its fixed assets or record this valuation on its financial records.
 - Methuen Housing Authority, while substantially improving its inventory controls, still needed to properly tag equipment items and to verify certain information in its general ledger.
 - Montague Housing Authority improved the protection of its property by constructing a maintenance building to store equipment that was previously kept outdoors. However, an annual physical inventory was not conducted, and records of fixed assets were still incomplete.
 - Newburyport Housing Authority did not conduct an annual inventory of property and equipment, did not update its inventory records, did not tag all equipment items, and did not list on its financial records the original cost of all equipment items.
 - Norton Housing Authority followed appropriate procedures for controlling and safeguarding fixed assets except that it had not completed the valuation of its fixed assets or recorded this valuation on its financial records.
 - Peabody Housing Authority did not maintain complete inventory records. In particular, the Authority did not list the fixed assets for each housing program. As a result, the value of individual inventory items could not be reconciled to the Authority's general ledger.
 - Wakefield Housing Authority did not conduct an annual physical inventory and did not maintain complete records of its fixed assets.
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**Inadequate
Control over
Rental Collections
and Rent
Redeterminations**

OSA reports disclosed that several housing authorities did not ensure that rent redeterminations were in accordance with Executive Office of Communities and Development (EOCD) and Department of Housing and Urban Development (HUD) regulations. These conditions could result in overcharges to tenants or lost income to Authorities.

- Barnstable Housing Authority was cited in a prior audit for not conducting timely annual rent redeterminations. During the current audit period, a review of tenant files disclosed that more than half of the annual rent redeterminations were performed between two and nine months after tenants' annual review dates. As a result, the Authority could not be assured of the accuracy of its rental charges.
- Chelsea Housing Authority did not complete all required annual rent redeterminations. As a result, the Authority could not be assured that its tenants remained eligible for assisted housing or were paying the correct amount in rent.
- Chicopee Housing Authority had an escalating delinquent rent problem. As of June 30, 1990, the Authority was owed \$60,180; as of June 30, 1991, rental money owed had increased 26% to \$75,834. These tenant arrearages resulted in reductions in the Authority's operating reserves and the potential for cash flow problems.
- Franklin County Regional Housing Authority had an escalating delinquent rent problem. Tenants' accounts receivable balances grew 71% from \$28,600 on September 30, 1989 to \$48,950 on September 30, 1990. These arrearages resulted in reductions in the Authority's operating reserves and the potential for cash flow problems.
- Millis Housing Authority's tenants' files lacked sufficient documentation, contained errors in rent calculations, and, in many instances, did not indicate that annual rent redeterminations were made. As a result, the Authority may have either overcharged tenants or lost potential rental income.
- Norton Housing Authority had not redetermined tenants' rents since 1988. In addition, notification to tenants of pending rent redeterminations were informal; not all tenants were contacted; and tenants who were notified were permitted to submit incomplete documentation. As a result, the Authority could not be assured that its tenants remained eligible for assisted housing or were paying the correct amount in rent.

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- Norton Housing Authority did not maintain a rent roll, which is a listing of the amount of rent charged to and owed by each tenant. Without a rent roll, the Authority had no systematic and accurate way to check that the correct amount of rent for each tenant was being collected.

Noncompliance with State Laws and Regulations

OSA reports disclosed that one Authority was not in compliance with state bidding laws and that several others were not in compliance with various Executive Office of Communities and Development (EOCD) regulations. Such noncompliance could result in unnecessary or inappropriate expenditures or in increased risk to tenant health and safety.

- Marshfield Housing Authority's former Chairman of its Board of Directors, acting on his own, violated the state's competitive bid law by awarding \$107,882 in no-bid construction work. The Chairman also did not have signed contracts detailing the scope of work to be performed and did not distinguish routine maintenance from structural rehabilitation. As a result, the Authority could not be assured that it had obtained the best possible price for services rendered and, in addition, may have paid for work that was unnecessary. (See pp. 64, 65, 66)
- Merrimac Housing Authority did not conduct the annual site inspections required by EOCD. As a result, potentially unsafe conditions could exist.
- Newburyport Housing Authority, contrary to EOCD regulations, did not conduct annual inspections of either its dwelling units or its other property. As a result, potentially unsafe conditions could exist.
- Norton Housing Authority, contrary to EOCD regulations, did not enter into written contracts with architects, attorneys, or construction contractors hired for two development projects. As a result, the Authority could not be assured that its understanding of specific contractual obligations and scope of services was the same as that of the service providers.
- Norton Housing Authority, contrary to EOCD regulations, did not conduct annual site inspections. As a result, potentially unsafe conditions could exist.

**Noncompliance
with Tenant
Selection
Procedures;
Delays In Renting
Apartments**

OSA reports disclosed that certain housing authorities did not adhere to Executive Office of Communities and Development (EOCD) regulations regarding tenant selection and did not move expeditiously to fill vacant apartments. These conditions could result in lost rental income to the Authorities, as well as in depriving eligible low-income persons of housing to which they are entitled. Examples include:

- Barnstable Housing Authority did not use the current table of net income limits set by EOCD for admission to state-aided housing and, consequently, incorrectly denied housing to at least four applicants. In addition, the Authority did not move to evict a tenant convicted of illegal drug distribution as required by state law in order to increase health and safety protections to public housing residents.
- Norton Housing Authority excessively delayed filling vacant units and did not maintain a vacancy ledger during the period January 1, 1989 to September 30, 1990. The Authority could have generated at least \$2,600 from October 1, 1989 to September 30, 1990 had its vacant units been occupied within the time frame considered reasonable by EOCD. Furthermore, since the Authority did not maintain a vacancy ledger that details whether or not a unit is occupied, total rental income lost through delays in preparing and filling apartments could not be computed and the Authority lacked a source for monitoring its tenant-selection process.
- Norton Housing Authority's waiting list for elderly housing was incomplete, and the status of applicants was unclear. As a result, eligible applicants may not have received housing or may have had to experience unnecessary or unfair delays.

Questionable Expenditures/Revenue Not Maximized

Prudent business practices, such as maximizing interest income and ensuring that travel and other expenditures are entirely justifiable, increase monies available for services and minimize operating subsidies from the Commonwealth. The following are examples of questionable expenditures or failure to maximize interest income.

- Barnstable Housing Authority provided a supplemental fringe benefit plan allowing each employee to spend up to \$1,200 annually on such expenses as life and homeowner's insurance. Since this plan was not approved by the Executive Office of Communities and Development or the Department of Housing and Urban Development, benefits costs of \$18,998 were questionable.
- Marshfield Housing Authority paid \$2,600 to an outside contractor for routine transporting of rubbish to a dump and for cleaning that could have been done by regular maintenance staff.
- Montague Housing Authority lost \$1,820 in potential interest income during the current audit period because it maintained its funds in non-interest-bearing accounts.
- Norton Housing Authority made an overpayment of \$1,112 to a landlord in one of its leased housing programs. The money was repaid when this finding was brought to the attention of the landlord.
- Pepperell Housing Authority paid \$678 for conference registration and hotel deposits for attendance at a housing seminar. This was in noncompliance with the Executive Office of Communities and Development's prohibition of the use of state funds for overnight travel. Furthermore, when no employee or board member who had indicated interest was actually able to attend the conference, the Authority made no attempt to cancel the hotel reservations or obtain reimbursement.
- Revere Housing Authority was cited in a previous audit for paying the City of Revere more in lieu of taxes than required by state law or Executive Office of Communities and Development regulations. The Authority continued to reimburse the city at the higher rate during the current audit period, overpaying by \$7,305 for the fiscal year ended March 31, 1991.

Prior Audit Results: Corrective Actions

A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to recognize agency compliance with OSA recommendations. Housing authorities have been particularly responsive to OSA recommendations and in most instances have moved expeditiously to improve their financial management practices, as indicated in the following examples:

Adams Housing Authority

- The Authority has obtained the appropriate approval for use of \$28,900 in excess development funds for modernization work.
- The Authority has satisfactorily addressed the problem of serious structural defects at one of its housing units. It has taken appropriate steps to demolish a two-apartment house, which has not been occupied since 1985, and to develop in its place special needs housing units.

Barnstable Housing Authority

- The Authority has correctly capitalized \$7,140 in computer purchases by making the appropriate accounting adjustments to its books of account.

Belmont Housing Authority

- The Authority's property records now contain a statement of the value of its items of equipment.

Canton Housing Authority

- The Authority's board members have repaid \$2,083, the full amount owed in unallowed compensation.
- The Authority has returned to the Commonwealth \$242,219 in excess development funds that it had retained since 1983, when the construction project for which funding had been granted was completed.

Dalton Housing Authority

- The Authority has improved its rent redetermination procedures by applying correct rental rates and maintaining complete supporting documentation in its tenant files.

Fall River Housing Authority

- The Authority has determined the original cost or fair market value of all equipment and has recorded this valuation on its books of account.
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**Franklin County
Regional Housing
Authority**

- The Authority has properly returned to the Commonwealth \$184,149 in development funds that remained after project construction was completed.

**Hadley Housing
Authority**

- The Authority has strengthened its administrative controls by completing and implementing a federal Management Plan for controlling administrative and operational functions.

**Haverhill Housing
Authority**

- The Authority is now calculating all rents in accordance with regulations, thus increasing assurance that rent charges are accurate.
- The Authority has filed all required Internal Revenue Service forms for calendar years 1989 and 1990.

**Methuen Housing
Authority**

- The Authority has strengthened its accounting and administrative controls by ensuring that all vouchers adequately support expenses incurred, by ensuring that expenditures are properly monitored and classified, and by requiring all employees to submit time sheets.
- The Authority has received repayment for travel expenses provided to non-Authority personnel who accompanied Authority employees to conferences.
- The Authority is now conducting required annual property inspections.

**Montague
Housing Authority**

- The Authority has improved its tenant-selection procedures and the accuracy of its rent-determination calculations.
- The Authority has satisfactorily addressed maintenance problems by renovating the bathrooms in its family housing units.

**Newburyport
Housing Authority**

- The Authority has improved administrative and program controls by submitting correct rental subsidy requests; by reserving larger apartments for families, rather than allowing occupancy by single tenants; by properly verifying tenants' income information; and by expending program money from the proper accounts.
 - The Authority has filed all required Internal Revenue Service income information forms.
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| Norton Housing Authority | ■ The Authority has improved the management of its financial resources by transferring its modernization funds totalling \$50,000 to the Massachusetts Municipal Depository Trust account in order to maximize interest income. |
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| Pepperell Housing Authority | ■ The Authority is now in compliance with public bidding laws and with Executive Office of Communities and Development regulations for the awarding of modernization contracts. |
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| Rockland Housing Authority | ■ The Authority has improved the safeguarding of its property and equipment by conducting an annual physical inventory, by maintaining accurate records of fixed assets, and by properly recording the value of inventory items. |
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| Rowley Housing Authority | <ul style="list-style-type: none">■ The Authority has filed all required Internal Revenue Service income information forms for calendar years 1988, 1989, and 1990.■ The Authority has made substantial progress in reducing delays in preparing and filling vacant units. |
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| Swampscott Housing Authority | ■ The Authority has improved the safeguarding of its property and equipment by conducting an annual physical inventory, by properly tagging equipment items, and by maintaining records of its fixed assets in accordance with reporting requirements. |
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| Wakefield Housing Authority | ■ The Authority has strengthened its accounting controls by properly recording the receipt of all state housing subsidies. |
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Initiatives

The following is an update of planned and ongoing special OSA initiatives in the area of Authority audits:

Executive Office of Communities and Development (EOCD)

- The OSA will comprehensively review EOCD's regulations pertaining to public housing and redevelopment authorities. The audit will identify areas that should be strengthened to improve operations and identify regulations that should be modified to allow more flexibility where appropriate. Authorities throughout the state will be included, and Authority officials will be surveyed to obtain their views regarding regulations promulgated by EOCD.

Local Housing Authorities

- The OSA will conduct audits statewide of selected public housing authorities. These audits will review the adequacy of internal controls and compliance with programmatic requirements for the following areas: tenant selection, rent redetermination, preparing and filling vacant units, administrative costs and related expenses, and miscellaneous and other income.

Massachusetts Bay Transportation Authority (MBTA): Capital Improvement Projects

- The OSA is completing an audit of major capital improvement projects administered by the MBTA that are 100% state-funded. Projects under review include, but are not limited to, the North Station Platform/Garage Project, the South Station Rehabilitation Project, the Lynn Central Square Station and Garage Project, the JFK-UMass Station Project, the Roxbury Replacement Service Project, and the Purchase of Commuter Rail Equipment Project. In addition, as part of a statewide review of short-term and long-term debt financing, the OSA will evaluate the bond issuance structure at the MBTA.

Massachusetts Housing Finance Agency (MHFA)

- The OSA is completing a review of several areas within the MHFA, including the status and impact on operations of non-performing or uncollectible loans, implementation of single- and multi-family programs, compliance with MHFA policy regarding transfer of property from a non-profit to a limited-profit entity, and procedures for bidding and awarding all professional contracts. In addition, as part of a statewide review of short-term and long-term debt financing, the OSA is evaluating the bond issuance structure at MHFA.
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**Massachusetts
Turnpike Authority**

- The OSA is completing a review of several areas within the Massachusetts Turnpike Authority, including its procurement reform initiatives; construction contract award process; toll collection controls and procedures; policies related to the procurement and disposition of motor vehicles, heavy equipment, other maintenance equipment, and office furnishings; and administrative policies and procedures governing travel and entertainment. In addition, as part of a statewide review of short-term and long-term debt financing, the OSA is evaluating the bond issuance structure at the Authority.

**Massachusetts
Water Resources
Authority (MWRA)**

- The OSA has begun a review of the MWRA's activities relative to the administration of the Harbor Cleanup Project that will include, but not be limited to, a review of contract awards and amendments, project scheduling, and anticipated cost and funding. It will also include an assessment of the system of internal controls the MWRA has established for estimating, monitoring, and controlling project costs.

**Regional Transit
Authorities**

- The OSA, jointly with the Office of the Inspector General, has begun a statewide review of regional transit authorities, with particular emphasis on contract bidding and awarding processes.

Audit Results

Introduction Accounting and Administrative Controls

The audit of the accounting and administrative controls of the [Organization] was conducted in accordance with the standards of the [Institute of Certified Public Accountants]. The audit was performed by [Auditor's Name] and [Auditor's Name], both of whom are members of the [Institute of Certified Public Accountants].

The audit was conducted in accordance with the standards of the [Institute of Certified Public Accountants]. The audit was performed by [Auditor's Name] and [Auditor's Name], both of whom are members of the [Institute of Certified Public Accountants].

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The audit was conducted in accordance with the standards of the [Institute of Certified Public Accountants]. The audit was performed by [Auditor's Name] and [Auditor's Name], both of whom are members of the [Institute of Certified Public Accountants].

Education Audits

During the report period, the OSA released 14 audits pertaining to higher education, including eight audits of federal financial assistance programs. Four of the 14 audits reviewed Electronic Data Processing (EDP) activities and are detailed in the EDP Audit section on page 54.

Audit Results

Inadequate Accounting and Administrative Controls

OSA education audits revealed deficiencies pertaining to internal control policies and procedures. Such weaknesses can create vulnerabilities to waste and illegal acts and can result in unnecessary expenditures. Examples include:

- North Adams State College's inadequate internal controls over trust fund financial activity resulted in three trust fund accounts being overspent by \$59,179. Because trust funds were consolidated in the College's cash management system, other trust fund balances were used to subsidize these excess expenditures.
- North Adams State College did not regularly reconcile its bank accounts and during the audit period had not reconciled three bank accounts at all. Due to inadequate administrative controls, confusion existed as to whose responsibility it was to reconcile various accounts, and no independent verification was made to determine if all accounts had been properly reconciled. As a result, the potential for such irregularities as altering bank deposits existed and the College could not be assured that its cash would be fully accounted for and properly safeguarded.
- North Adams State College lacked adequate internal controls within its Bursar's Office. The same employee typically received cash and checks, issued receipts, prepared the records, and had access to the safe. This weakness contributed to an environment in which unexplained cash variances, totalling \$8,690, existed between College records and bank deposits. In each case, the amounts indicated on the College records were greater than those recorded on the deposit receipts, and a theft of funds was suspected. (See p. 64)
- Worcester State College lacked adequate internal controls over student accounts receivable. Specifically, the College did not have procedures in place to reconcile the student receivable control accounts to individual student records, resulting in a variance of \$9,673. Furthermore, because the College did not maintain, by student name, a record detailing the activity of each account, such as tuition, library fees, etc., it was unable to verify the amount due from each student to these accounts.
- Worcester State College lacked adequate internal controls over its bank reconciliation process. Specifically, the College did not perform monthly reconciliations, which resulted in a variance of \$2,153 between the College's general ledger balance and its bank balance. Without properly reconciled records, the College had no assurance that its trust funds and tuition revenues reflected actual cash balances, or that College funds were fully accounted for and properly safeguarded.

**Noncompliance
with Federal
Regulations
Regarding Student
Financial
Assistance**

OSA audits revealed numerous deficiencies pertaining to internal controls over student financial assistance programs resulting in violations of federal regulations. Schools participating in the federal student financial aid program must adhere to the Recipient's Guide for the U.S. Department of Education Payment Management System. This system requires schools to request funds for immediate needs only and to disburse these funds within three working days. Failure to comply with federal regulations could potentially jeopardize a school's eligibility to participate in certain federal financial aid programs, thereby limiting educational opportunities for students. Examples of deficiencies include:

- Bridgewater State College did not meet, in eight of the 18 transactions tested, the federal requirement to expend funds within three working days. Federal regulations require that a school only draw down funds immediately needed to be paid out, and any excess funds that are drawn down must be returned to the U.S. Department of Education. As a result of its noncompliance, the College risked the imposition of sanctions and financial penalties.
- North Adams State College had not established a cash management system regarding the drawdown and disbursement of federal funds. Therefore, in order to avoid the federal prohibition against having funds on hand for more than three days, the College utilized trust funds, which were later reimbursed with federal grant monies, to pay financial assistance awards. Federal regulations do not encourage institutions to use their own funds as a way of limiting federal funds to immediate needs. Furthermore, by utilizing trust funds to pay awards averaging \$31,911, \$62,855, and \$269,234, the College lost approximately \$1,150 in interest.
- Quinsigamond Community College, in 14 of 18 cases reviewed, did not effectively time the drawdown of federal cash with its ultimate disbursement, contrary to federal regulations. Specifically, the College drew down funds greater than its forecasted needs to provide a "safety margin" and did not draw down separately for each College Work-Study payroll.
- The University of Massachusetts-Dartmouth did not, in five of 18 cases reviewed, expend federal funds within the required time frame because of limitations in its cash-management system regarding the drawdown and disbursement of federal funds.

Prior Audit Results: Corrective Actions

A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to recognize agency compliance with OSA recommendations. The following schools implemented the OSA's prior audit recommendations:

**North Adams
State College**

- The College has established an effective purchasing system by centralizing the purchasing function and establishing written policies and procedures.
- The College has improved controls over its physical property by maintaining an accurate inventory list and tagging its equipment items.

**Springfield
Technical
Community
College**

- The College has improved its cash management practices to comply with federal requirements related to requesting and disbursing of financial assistance funds.

**Worcester State
College**

- The College is now recording both the distribution of revenue between accounts and the receipts and disbursements of trust funds.

Initiatives

The following is an update of planned and ongoing initiatives in the area of education:

Foundations at Institutions of Public Higher Education

- The OSA will conduct a statewide audit to determine compliance with Section 211 of Chapter 133 of the Acts of 1992, which sets guidelines for establishing and operating foundations at institutions of public higher education.

State College and University Building Authorities

- The OSA is nearing completion of a comprehensive review of the four state college and university building authorities. This audit is reviewing each Authority's room-and-board determination process, fixed asset control system, cash and investment management practices, contract bidding and awarding process for all professional contracts, and insurance premium costs.

Student Financial Aid Programs

- The OSA is continuing audits of federal student financial assistance programs at 12 public colleges during fiscal year 1993.

Audit Results

Findings

1. The audit found that the school district's financial records were not properly maintained and that the district's financial statements were not audited annually.

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During the audit report period, the OSA released seven reports pertaining to human services activities, five of which contained audit results. These reports revealed deficiencies in such areas as accounting and administrative controls, noncompliance with state and federal laws and regulations, and controls over property and equipment.

Human Services Audits

During the audit report period, the OSA released seven reports pertaining to human services activities, five of which contained audit results. These reports revealed deficiencies in such areas as accounting and administrative controls, noncompliance with state and federal laws and regulations, and controls over property and equipment.

Audit Results

Inadequate Accounting and Administrative Controls

Adequate accounting and administrative controls help maximize state non-tax revenue collections of accounts receivable and help minimize misuse of state funds. Deficiencies were disclosed at the following entities:

- Beverly Children's Learning Center, Inc., made errors in its mathematical calculations on day care service invoices submitted to the Department of Social Services (DSS) and did not deduct from these invoices the number of days that some children were not enrolled in a program. As a result, the Center was overpaid \$3,405 by DSS for day care services. In addition, the Center improperly billed DSS \$2,169 for services to a child who was not enrolled in any of the Center's programs and was, in fact, a full-time second grade student in a public school during the audit period.
- Beverly Children's Learning Center, Inc., had the following administrative and operational deficiencies: the Center paid credit card charges totalling \$2,145 that lacked supporting documentation; incurred a \$793 sales tax expense when a new van was purchased with state funds, even though its tax-exempt status precludes the paying of sales tax; paid \$15,000 to three consultants with whom it did not have written contracts; and improperly used \$4,450 in state funds to pay for "outpatient psychotherapy services" for its Executive Director.
- Community Systems, Inc.'s (CSI) contract with its affiliated company resulted in questionable costs. CSI awards an annual contract to its affiliated company, Community Systems and Services, Inc. (CSSI) to provide various management services to CSI. Because these two entities share the same Board of Directors, the OSA reviewed the annual contracts between these two entities and determined that they did not contain adequate controls (e.g., specific terms, conditions, and scope of services containing measurable tasks and reporting requirements) to ensure that the level of services contracted for were necessary and reasonable or that the services provided by CSSI were allowable and allocable to the contracts. In addition, CSSI did not adequately document all the services it claimed it had provided. As a result of these control deficiencies, CSSI's performance under the contracts was essentially unmeasurable, and the Department of Mental Retardation and the Commonwealth could not be assured that the amount and types of services received were appropriate or that they had received all the services for which they were billed.

**Inadequate
Accounting and
Administrative
Controls**

Continued

- Community Systems, Inc. (CSI) incurred unreasonable and nonreimbursable costs associated with the leasing of a community residence at more than market rates. CSI entered into a five-year lease agreement with a realty trust company under which it was obligated to pay rent and other operating expenses of \$1,700 a month for the first year rising to \$1,900 a month in the final year. Local realty information indicates that comparable property would lease for \$700-\$800 a month. As a result, CSI's lease agreement may represent between \$35,000 and \$50,000 in unreasonable costs to the Department of Mental Retardation and the Commonwealth.
- Community Systems, Inc. (CSI) transferred payroll costs between service contracts which resulted in a duplicate billing of \$5,566 to the Commonwealth for fiscal year 1990. CSI billed the Department of Mental Retardation (DMR) and received payment of \$5,566 for the salaries of two nurses under one contract and then billed DMR \$5,566 again for salary costs.
- Community Systems, Inc., (CSI) contrary to its own written personnel policies, paid \$1,362 for salaries and fringe benefits to workers who earned compensatory time for working more than their regularly scheduled hours. CSI's written policies do not allow employees to be paid for compensatory time, only to accrue time off at a later date. As a result, DMR incurred an inappropriate and nonreimbursable expenditure.
- Danvers State Hospital improperly changed the job classifications of two of its employees just prior to their retirements. As a result, both employees annually received 9% more (\$2,800 and \$1,900 respectively) than the pension allowances to which they were entitled. The State Board of Retirement subsequently notified the OSA that it had voted to change these classifications retroactive to their retirement dates and to withhold \$100 per month from each retiree until the excess amounts had been repaid.

-
- Nauset Workshop, Inc.'s (NWI) inadequate system of internal controls over financial transactions resulted in inadequate assurance that transactions were properly authorized, recorded, and reported. Specifically, NWI did not establish and implement formal written procedures relative to its accounting and payroll activities, did not delegate accounting tasks to several different employees involved in the accounting cycle, and did not maintain adequate documentation to substantiate its revenues and expenditures. These deficiencies led to discrepancies in the recording of company assets and liabilities, discrepancies in payroll records resulting in \$37,590 in questionable payroll expenses, and inadequate documentation to support at least \$99,352 in non-payroll expenditures and \$435,438 in revenues. As a result, NWI could not be assured that its financial assets were safeguarded, or that its financial transactions were properly authorized, recorded, and reported.

Inadequate Control over Property and Equipment

All entities are required to keep complete inventories of equipment, materials, and supplies in order to ensure that property is safeguarded and used for its intended purpose. The following reports identified areas where controls needed improvement:

- Beverly Children's Learning Center, Inc., did not maintain an inventory that listed a description and location of each item, its cost, and the source of funds used to purchase each item. Without accurate recordkeeping, property items could be subject to loss or theft, with minimal possibility of recovery.
- Danvers State Hospital did not conduct annual physical inventories of its property and equipment and did not maintain adequate current inventory records. As a result, the Hospital could not be assured that its fixed assets were properly safeguarded against loss or misuse.
- Nauset Workshop, Inc. (NWI) did not maintain detailed records of its fixed assets, did not conduct an annual inventory of its furniture and equipment, and did not properly tag equipment items. Additionally, NWI did not have any policies and procedures in place to restrict access to its equipment. As a result, NWI could not be assured that its fixed assets were properly safeguarded against loss or unauthorized use.

**Noncompliance
with State and
Federal Laws and
Regulations**

Several human services entities were not in compliance with various state and federal laws or regulations. Such noncompliance could result in overspending or in loss of tax revenues. Examples include:

- Beverly Children's Learning Center, Inc., did not issue Internal Revenue Service or Massachusetts Department of Revenue 1099-MISC income information forms to three consultants who were paid a total of \$5,624 in 1989 and \$9,389 in 1990. As a result, income totalling \$15,013 may have gone unreported to the Commonwealth and to the federal government.
- Beverly Children's Learning Center, Inc., in violation of regulations promulgated by the state's Division of Purchased Services, provided employee bonuses totalling \$2,145 with state funds. Such fringe benefits granted by service providers to their employees under state contracts are not allowed and represent nonreimbursable costs.
- Community Systems, Inc. (CSI), in violation of state regulations, billed the Commonwealth for an unallowable expenditure. Specifically, CSI was assessed a \$509 penalty by the IRS for failure to make sufficient, timely tax payments and was improperly reimbursed by DMR for this expense.
- Danvers State Hospital did not comply with the state's competitive-bidding regulations for purchases over \$500. Specifically, during fiscal years 1990 and 1991, the Hospital purchased parts and supplies totalling \$42,407 by splitting purchases of \$500 or more into smaller orders of less than \$500. As a result, the Hospital could not be assured that goods and services were obtained at the lowest possible cost to the Commonwealth.
- Danvers State Hospital, in violation of the Commonwealth's competitive-bidding regulations, altered the length of a food-service contract from two years, which was contained in a Request for Proposals, to five years, without rebidding the contract. As a result, the Hospital could not be assured that the service was obtained at the lowest possible cost to the Commonwealth.

Prior Audit Results: Corrective Actions

A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to recognize agency compliance with OSA recommendations. Among the human services entities that implemented the OSA's recommendations were the following:

Danvers State Hospital

- The Hospital is now placing its group patient funds in an interest-bearing account.

Soldiers' Home in Holyoke

- The Home is now billing and actively pursuing third-party insurers for the remaining balance of previously unbilled services.
- The Home's retained revenues are now being properly expended for patient care or maintenance of the Home.
- The Home has strengthened internal controls over physical property, materials, and supplies.

Initiatives

The following is an update of planned and ongoing initiatives in the area of human services:

Departments of Mental Health (DMH), Public Health (DPH), and Mental Retardation (DMR): Review of Facility Closings

- The OSA will review the Administration's consolidation plan to close certain DMH, DPH, and DMR facilities. Specific objectives include a review of the process used to arrange for alternative patient care; a cost/benefit analysis of the decision to close facilities; and a determination as to whether the loan of state owned equipment to private organizations violates any state laws, rules, or regulations.

Department of Public Welfare: "ET-Choices" Program

- The OSA, as mandated by Chapter 75 of the Acts of 1990, is preparing an analysis and evaluation of the state's employment and training program, "ET-Choices." The evaluation includes an analysis of existing incentives and disincentives to economic independence, types of employment positions offered or filled, and success and failure rates. The evaluation also includes an examination of the supportive services offered to participants of the program, such as day care and medical care, and an analysis of program costs. An Interim Report has been issued and is available from the Office of the State Auditor at 727-2075.

Human Services Providers: Indirect Costs

- The OSA plans to conduct a statewide review of vendors' indirect costs, such as administrative and support charges, to determine if these costs are reasonable, allowable, and allocable to state contracts.

Purchase of Service System

- The OSA is continuing a performance audit relative to the process for awarding state contracts to human services vendors. The audit will assess the adequacy of administrative controls over the procurement of services. Selected state agencies and provider vendors are being reviewed for compliance with policies and procedures, as well as with prescribed and acceptable practices.

Appendix A

Appendix A Human Services Audits

The Human Services Audits are designed to provide a comprehensive review of the services provided by human service organizations. The audits are conducted by a team of auditors who are trained in the use of the Human Services Audits.

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Appendix B Human Services Audits

The Human Services Audits are designed to provide a comprehensive review of the services provided by human service organizations. The audits are conducted by a team of auditors who are trained in the use of the Human Services Audits. The audits are designed to provide a comprehensive review of the services provided by human service organizations. The audits are conducted by a team of auditors who are trained in the use of the Human Services Audits.

Judiciary/Law Enforcement Audits

Eight judiciary/law enforcement audits were released during the report period, four of which identified deficiencies in the areas of accounting and administration, inventory controls, and management of abandoned funds.

Audit Results

Inadequate Accounting and Administrative Controls

Judiciary/law enforcement reports revealed various internal control weaknesses that create vulnerability to waste and mismanagement and may result in lost revenues. For example:

- The Hampden District-District Attorney's Office lacked an adequate internal control system for non-routine payroll items. Specifically, in a May 1, 1990 letter to the State Comptroller and a May 18, 1990 employee memorandum, the District Attorney indicated that he had authorized his employees to receive salary increases retroactive to March 1, 1990. However, the May 1990 payroll input forms revealed that 39 employees had received salary increases, totalling \$20,621, retroactive to July 1, 1989, eight months previous to the period designated in the correspondence. Because of a lack of written documentation surrounding these transactions, there is no assurance that certain salary increases paid to employees were properly authorized.
- The Office of the Chief Administrative Justice lacked adequate controls over telephone usage, including a lack of written policies. This deficiency led to unauthorized "900"-line telephone charges amounting to \$9,300 and an additional \$96,745 in long-distance charges, including approximately \$27,000 for out-of-state calls. The Office has sought and recovered only a limited dollar amount for these unauthorized calls.

Inadequate Control over Property and Equipment

The State Comptroller's Policy Manual requires that all state entities keep complete inventories and tag equipment in order to ensure that property is safeguarded and used for its intended purposes. The following report identified areas where inventory controls needed improvement:

- Massachusetts Correctional Institution (MCI)-Norfolk was in noncompliance with the Department of Correction's (DOC) policies regarding inventory controls over its materials, supplies, and physical property. Specifically, the Institution recorded inventory transactions two to four months after the activity occurred; did not segregate the duties of employees responsible for food inventory; did not notify the appropriate administrative personnel of missing inventory totalling \$100 or more; did not maintain a system of perpetual inventory records for the Commonwealth's physical property; and did not comply with DOC policies for disposal of surplus inventory. In addition, MCI-Norfolk had not implemented the procedures necessary for compliance with provisions in the Internal Control Statute (Chapter 647 of the Acts of 1989) requiring the reporting of unaccounted-for variances and shortages to the OSA. As a result of these deficiencies, the Institution had little assurance that the Commonwealth's assets were adequately safeguarded against theft or misuse.

Retention of Abandoned Funds

Chapter 200A of the Massachusetts General Laws establishes regulations relative to the retention of abandoned funds maintained by the courts of the Commonwealth. During this period, the following instance of noncompliance with this law was revealed.

- The Middlesex County District Attorney's Office did not forward to the State Treasurer's Office money presumed abandoned as defined by Chapter 200A of the Massachusetts General Laws. Chapter 200A states that money is to be presumed abandoned if not claimed within five years after the date of payment into the court. The Office was in possession of currency and checks totalling \$72,398 that had been seized in connection with criminal or civil forfeiture cases and that had not been claimed within the five-year limit. As a result, the Commonwealth was denied the timely use of these funds.

Prior Audit Results: Corrective Actions

A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to recognize agency compliance with OSA recommendations. Among the judicial system entities that implemented the OSA's recommendations contained in prior audit reports were the following:

**Berkshire Probate
and Family Court**

- The Court has improved its financial management by submitting all fiscal year 1991 revenue to the State Treasurer in a timely manner.

**Middlesex
County District
Attorney's Office**

- The Office is now following competitive-bidding requirements for its service contracts and is no longer making excess payments for consultant services.
- The Office has strengthened its accounting and administrative controls by obtaining proper authorization prior to purchasing data processing equipment, by making all supporting records available for audit, by complying with the State Comptroller's rules and regulations governing advances from the State Treasury, by maintaining an internal control system over cash transactions, and by complying with approval procedures for out-of-state travel payments.
- The Office is now maintaining the Forfeited Funds Trust Fund account in accordance with the State Comptroller's policy, has improved control and record-keeping over forfeited vehicles, and has adopted a written policy for the sale of forfeited property.

Initiatives

Listed below are planned and ongoing initiatives in the areas of the judiciary, law enforcement, and corrections.

Court Facility Rental Accounts

- The OSA is conducting its mandated audit of court facility rental accounts and related accounts of any county, city, or town that receives payments for the provision of court facilities. Section 2 of Chapter 203 of the Acts of 1988 states that every county, city, or town which receives such payments must maintain the rental funds in a separate account to be used solely for the maintenance of the rented facility. The OSA will examine compliance with this requirement, as mandated by Chapter 203.

Department of Correction: Overcrowding Relief Program

- The OSA has begun a review of the Department of Correction's County and State Overcrowding Relief Program. The review's objective is to determine county and state compliance with applicable rules, regulations, and laws regarding this program.

District Courts: Controls over Probation Fees

- The OSA will review and evaluate the internal controls in place at district courts for assessing and collecting probation fees. The audit will examine: (1) compliance with those provisions of Chapter 276, Sections 87A and 99, of the General Laws that pertain to the probation fee process; (2) the standards and procedures used in monitoring court orders applicable to probation fees; (3) the procedures used by Chief Probation Officers or their representatives in disseminating support orders/restitution information to the district court; (4) whether community service work programs have been established and the effectiveness of such programs; and (5) the adequacy of controls over the collection of fees, including a determination of whether waivers, if any, are supported by documentation and are made in accordance with prescribed requirements.

Forfeited Properties

- The OSA will review the Commonwealth's policies and procedures governing forfeited properties. The audit will focus on existing internal controls and will seek to determine agency compliance with Chapter 94C, Section 47, of the General Laws.

Trial Court System

- The OSA is continuing a financial review of the Office of the Chief Administrative Justice, its various departments, and the trial courts under its jurisdiction (i.e., superior, district, probate, juvenile, land, and housing). This top-down approach will help identify material and common financial and administrative issues in each component of the judicial system so that uniform recommendations can be made.

Other Audit Reports

During the report period, the OSA released 14 other audits pertaining to various entities. These reports include two comprehensive revenue reports and a review of real estate asset management at the Division of Capital Planning and Operations, as well as reports on various state boards, agencies, and activities.

Audit Results

Inadequate Accounting and Administrative Controls

Adequate accounting and administrative controls help to ensure that state funds are being spent properly and efficiently. Several reports during this period identified accounting, recordkeeping, and other internal control weaknesses. Examples include:

- The Board of Registration in Medicine, which administers the Federal Licensing Examination for physicians, mailed 93 checks totalling \$31,345, by regular mail, to the National Federation of Medical Boards (NFMB), the organization which prepares and grades the examination. The checks were subsequently lost, whereupon the Board sought replacement checks from examinees. As of May 3, 1991, the Board had received 45 replacement checks totalling \$17,570 and forwarded them to NFMB. The Board also paid NFMB the remaining \$13,775 from its appropriated funds. In addition to continuing to seek reimbursement from the examinees whose checks were lost and not replaced, the OSA suggested the Board return to a system used prior to 1989 whereby applicants made their checks out to the Commonwealth of Massachusetts. These checks were deposited as Commonwealth revenue, and NFMB fees were paid from the Board's appropriation account. Not only was there no net cost to the Commonwealth, but checks were deposited immediately rather than being kept on site for extended periods, thus increasing interest earning potential and decreasing the likelihood of loss.
- The Board of Registration in Medicine needed to transfer accounting for fines receivable from its disciplinary unit to its fiscal unit. During the audit period, when the Board imposed a fine, the information was sent to its disciplinary unit, which was responsible for collecting the fine. The disciplinary unit recorded the amount owed but did not inform the fiscal unit of the imposition of the fine. The collected monies, when eventually forwarded by the disciplinary unit to the fiscal unit, were recorded as miscellaneous income. As a result, the fiscal unit had no record of the balance of fines owed, had no control over the collection of fines, and could not submit accurate financial statements to the State Comptroller or actively pursue the collection of unpaid fines, which totalled \$81,792 at the close of the audit period.
- The Board of Registration in Medicine lacked adequate documentation for 36% of the compensatory time granted to employees. As a result, the Board could not be assured that all wage expenditures were for hours worked or for earned leave.

**Inadequate
Accounting and
Administrative
Controls**

Continued

- The Department of the State Treasurer had not properly reconciled the balance of its Pension Trust, which reflects state employee contributions and the value of the investments made from these contributions, with its ledger of accounts. As of January 31, 1991 the balance of the Pension Trust was \$5,367,863,320 compared to the fund ledger balance of \$4,340,913,271, a difference of \$1,026,950,049. The difference represented unrecorded investment gains and losses which needed to be recorded monthly in order to ensure that the fund ledger accurately reflected the carrying value of the State Employees' and Teachers' pension funds.
- The Massachusetts Office of Travel and Tourism (MOTT) within the Executive Office of Economic Affairs joined with several other entities to form the Boston/New England Tourist Board. More than \$64,000 was raised on behalf of tourism promotion and was distributed through this Board without its promulgating a charter, bylaws, or policies and procedures to account for receipts and disbursements. As a result, the exact amounts collected and expended could not be determined.
- The Massachusetts Office of Travel and Tourism within the Executive Office of Economic Affairs did not properly control cash collections at two tourist information centers. Cash collections from sales of beverages, snacks, and maps were turned over to a private tourist promotion organization without any compensation to the Commonwealth. In addition, at one center there was evidence of inadequate safeguarding of cash and possible collection shortages.
- The Massachusetts Office of Travel and Tourism's former Director authorized duplicate payments of invoices totalling \$80,000. Although the second payment of \$40,000 remained on account in London and may have been used to purchase additional services, duplicate payments of invoices are obviously contrary to good business practice and invariably mean lost interest income to the Commonwealth. In addition, during three trips to London, two on official business, the former Director withdrew over \$7,000 from this London account. The former Director repaid these funds shortly after audit of this account began. (See pp. 63, 65, 66)
- The Office of the Sergeant-at-Arms did not have written procedures for or adequate control over employee attendance records. These conditions contributed to an environment in which one employee was allowed to receive full salary and benefits for 47 months after exhausting all sick and vacation leave. The employee received \$124,550 in excess of the amount to which he was entitled. (See p. 67)

**Inadequate
Control over
Property and
Equipment**

The State Comptroller's Policy Manual requires all state entities to keep complete inventories and to tag equipment in order to ensure that property is safeguarded and used for its intended purposes. Examples of deficiencies in this area include:

- The Board of Registration in Medicine followed appropriate procedures for controlling and safeguarding fixed assets except that it did not assign a cost or value to each inventory item. Such information is necessary in order to maintain accurate financial records.
- The Department of Employment and Training's (DET) automated systems established to control electronic data processing equipment could not be relied upon to identify what equipment was owned by the agency or where such equipment was located. Furthermore, data input was not accomplished for up to six months after the transaction dates, resulting in continuously incomplete records. Without accurate recordkeeping, property items could be subject to loss or theft, with minimal possibility of recovery.
- The Department of Employment and Training (DET) could not account for all of its purchases. Audit tests of a large 1988 electronic data equipment purchase revealed that 7.9% of the processing hardware units purchased could not be identified on property records. Another test of physical inventory at nine DET offices disclosed that 78 units, or 16.8% of the total units assigned to these offices, were not there, and the actual location of these units could not be determined during the audit. Conversely, at these same nine offices, the audit found 107 units that either were not assigned to these offices or were not reflected on any DET property records.
- The Department of Employment and Training (DET) did not maintain property control records for equipment it had purchased and supplied to contracted training entities; nor did it maintain records of equipment purchased by the contractors from grant funds allocated by DET. Although the state retains legal ownership of this equipment, this deficiency exposed the property to possible loss, theft, or misuse.
- The Department of Food and Agriculture was cited in a previous audit for not maintaining its inventory records on a current basis, not filing the required Inventory of Physical Property reports, and not properly tagging equipment. During the current audit period, these conditions persisted, and the Department did not conduct a physical count of its inventory. As a result, the Department could not be assured that its fixed assets were adequately safeguarded or accurately recorded on its books.

**Inadequate
Control over
Property and
Equipment**

Continued

- The Department of Personnel Administration did not conduct an annual physical inventory and did not properly maintain its inventory records. As a result, it could not be assured that its fixed assets were adequately safeguarded or accurately recorded on its books.
- The Division of Capital Planning and Operations did not include on its detailed annual inventory report the real property owned or utilized by any of the state's Authorities. As a result, certain deliberations by the Governor and Legislature relative to the sale, acquisition, utilization, and disposition of state-owned property could not be supported with complete information.

**Noncompliance
with State and
Federal Laws and
Regulations**

The following entity was not in compliance with various state and federal statutes and regulations. Such noncompliance could result in loss or misuse of funds, or in loss of tax revenues.

- The Massachusetts Office of Travel and Tourism's former Director altered and otherwise falsified travel claims, a violation of Section 67B of Chapter 266, of the General Laws and of various federal statutes. This resulted in the theft of funds totalling at least \$15,017 from the Commonwealth. Subsequently, the former Director pled guilty in U.S. District Court to a violation of Title 18 of the U.S. Code, Section 1343-Wire Fraud. The former Director was sentenced to two months of house detention, was required to repay the Commonwealth \$14,904 plus a fine of \$2,000, and also was placed on probation for two years. (See pp. 63, 65, 66)
- The Massachusetts Office of Travel and Tourism did not prepare required Internal Revenue Service 1099-Misc income information forms for payroll costs amounting to at least \$63,000. As a result, these wages may have gone unreported to the Commonwealth and to the federal government. (See p. 63)

Special Audit Section: Revenue Audits

During the report period, the OSA released two comprehensive revenue audits that assisted the Office of the Comptroller in closing the Commonwealth's books. These audits, which satisfy federal auditing requirements, helped to ensure an accurate accounting of revenues collected and encumbered for fiscal year 1991. Audit activities included monitoring the year-end accounting and depositing of collected revenues and ensuring strict compliance with the Office of the Comptroller's accounting instructions.

Agency Compliance with the Comptroller's Official Year-End Closing Instructions for Cash & Revenue Management

The OSA observed and reviewed procedures for depositing and recording cash and revenue at 82 state agencies and 19 county Registry of Deeds offices in order to determine whether all receipts received through June 30, 1991 were reported on the Commonwealth's official books of account and were deposited with the State Treasurer's Office in accordance with the Office of the Comptroller's year-end closing instructions. This testing was performed to ensure an accurate accounting and recording of revenues collected during fiscal year 1991 and also to improve the timeliness of collecting and depositing revenues in order to maximize available non-tax revenue income.

Although most agencies were complying with the Office of the Comptroller's requirements, several agencies were not in full compliance. These instances are detailed below.

- The Division of Insurance had a four-week backlog in unprocessed checks for insurance agents' pending applications. As a result, approximately \$51,000 in fiscal year 1991 income was deposited in fiscal year 1992. Although this condition had been noted in four prior audit reports, the practice continued. However, the sums on hand in this audit period were substantially less than those in previous years. In order to ensure that funds are safeguarded and interest is maximized, revenue should be deposited upon receipt, even if the licensing process has not yet been completed.
- Holyoke Community College had not deposited with the State Treasurer \$33,985 in tuition income. As a result, both timely use of the money and interest income were lost. In addition, several student application fees and revenue funds were not separately recorded as required, and \$26,000 held in a local bank account could not be properly classified.

**Agency
Compliance with
the Comptroller's
Official Year-End
Closing Instructions
for Cash & Revenue
Management**

Continued

- Massasoit Community College, while correctly preparing cash-receipt documents, had not deposited all funds on hand with the State Treasurer. Late transmittals result in the loss of timely use of the money and in the loss of interest income that the money would have earned.
- Roxbury Community College, while correctly preparing cash-receipt documents, had not deposited all funds on hand with the State Treasurer. Late transmittal results in a loss of timely use of the money and in the loss of interest income that the money would have earned.

**Agency
Compliance with
the Office of the
Comptroller's
Official Year-End
Closing
Instructions for
Encumbrance &
Advance-Fund
Management**

The OSA reviewed fiscal year 1991 outstanding encumbrance balances and related outstanding advance funds at 52 state agencies as of June 30, 1991. This review indicated that most agencies were in compliance with the Office of the Comptroller's year-end closing instructions. Approximately 99.9%, or \$686.9 million, of the \$688.1 million in encumbrance transactions other than advances were in compliance. However, with respect to advance funds, 99.7%, or \$198.7 million, was not in compliance. This noncompliance was primarily the result of delays experienced in the following agencies.

- The Department of Public Welfare did not account for \$196.8 million by the July 1 deadline because documentation arrived late from its regional offices. The Department did, however, properly account for these funds on July 5, 1991.
- The Office of the Chief Administrative Justice of the Trial Court (OCAJ) did not account for \$972,000 by the July 1 deadline. Similar findings relating to the OCAJ had been noted in three prior audits.

Prior Audit Results: Corrective Actions

A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to recognize agency compliance with OSA recommendations. Corrective action, based on OSA recommendations, was taken in the following instances:

The Department of Environmental Management's (DEM) Permit Program for the Myles Standish State Forest

- DEM staff have removed signs and barriers which had been illegally erected by private citizens in order to restrict public access to beaches and other state property. However, ongoing monitoring is required as some barriers have already been reconstructed.
- DEM and the Town of Plymouth are requiring that renovated septic systems meet standards necessary to ensure safe sanitary facilities and to prevent water pollution.
- DEM has adjusted the rates it charges for camping and for cottage permit fees to reflect rising operating costs, as well as the fact that fees had not increased since 1975.

The Department of Food and Agriculture

- The Department has strengthened its accounting and administrative controls by maintaining accurate employee attendance records, by accurately recording all cash receipts and depositing these receipts daily, by properly accounting for cash received from the issuance of licenses and certificates, and by ensuring that approval signatures appear on all payment vouchers.
- The Department has also strengthened accounting controls by reconciling its appropriated funds to the Comptroller's records and by reconciling its checking account to bank statements.

**The Massachusetts
Office of Travel
and Tourism
(MOTT)**

- MOTT has renegotiated its major advertising contract to clearly establish its contractual rights and obligations, thereby reducing costs over two years by \$232,000.
- MOTT has strengthened its accounting and administrative controls by closing all unauthorized bank accounts, which had been established outside of the state cash-management system; by properly recording accounting transactions; and by following State Ethics Laws regarding travel reimbursement by private sources.
- MOTT has improved controls over contracts and grants by preparing a policy manual, by rebidding three contracts which had not been awarded in compliance with state law, and by properly soliciting bids for its fiscal year 1991 advertising program.
- MOTT has revised its grant distribution formula, resulting in a more equitable allocation of tourism grants.

**The State Racing
Commission**

- The Commission has enhanced interest income and controls over receipts by collecting monies due from race tracks on the day after each race.
- The Commission has improved its accounting controls by accurately posting all its receipts in its cashbooks and by successfully reconciling its expenditures with State Comptroller records.
- The Commission has strengthened its controls over property and equipment by maintaining required inventory records.

Initiatives

The following are among the planned and ongoing initiatives relative to various state agencies and programs:

Advisory Board on Revenue Resources and the State Economy

- The OSA will follow up on a prior audit which evaluated the effectiveness of the processes that the Advisory Board on Revenue Resources and other state agencies use to establish, monitor, and periodically adjust their revenue estimates. The audit will update the prior report and identify the progress the Board has made toward implementing OSA recommendations.

Departmental and Other Miscellaneous Income

- The OSA has initiated a statewide review of the internal controls, compliance with competitive bidding, frequency of collection, and appropriate cost sharing of the revenue derived by state agencies that have vending-type income from coin-operated cigarette, copy, amusement, laundry, and soft drink machines.

Depression of the Central Artery/Third Harbor Tunnel

- The OSA is a member of a multi-agency group whose purpose is to identify and prevent potential fraud, waste, and abuse during the construction of these projects and during the clean-up of Boston Harbor. Other entities in the multi-agency group include the Federal Bureau of Investigation, the U.S. Postal Inspection Agency, the State Inspector General's Office, the U.S. Attorney's Office, the U.S. Department of Transportation, the U.S. Environmental Protection Agency, and the U.S. Labor Department's Office of Labor Racketeering.

Concurrent with this joint cooperative effort, the OSA will independently review and assess the system of internal controls that the Massachusetts Highway Department has established for estimating, monitoring, and controlling project costs in order to identify system weaknesses and opportunities for savings; cost avoidances; and adherence to timing, scheduling, and performance requirements.

Division of Insurance

- The OSA is examining the audit procedures used by the Division of Insurance to determine the overall financial condition of insurance companies, including their solvency, and is also examining the adequacy of reserves held by the Division.
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**Executive Office
for Administration
and Finance
(EOAF)**

- This audit will review and evaluate the system EOAF uses to determine the amount the Commonwealth should charge for services performed by any state personnel or agency which are primarily for the benefit of an individual person or corporation. The audit will also examine the system used to determine state charges for any service, registration, regulation, license, fee, permit, or other public function in accordance with Chapter 7, Section 3B, of the General Laws and Chapter 240 of the Acts of 1989.

**Group Insurance
Commission**

- The OSA has completed a review of the decision-making process used by the Commission to determine which health plans would be eligible for open enrollment for state employees. This audit is available from the Office of the State Auditor at 727-2075. Its findings will be detailed in the OSA's next Semi-Annual Report.

Local Aid Fund

- The OSA, as mandated under Chapter 268 of the Acts of 1990, will conduct an audit of the Local Aid Fund, including the actual disposition of all revenue credited to said fund. This review will examine: (1) the total amount of revenue derived from the state income tax, sales tax, and corporate income tax as well as the balance of the State Lottery Fund after the payment of prizes and expenses of operations; (2) the amount of revenue that was actually credited to the Local Aid Fund; (3) the amount of revenue from the Local Aid Fund that was appropriated to the cities and towns; and (4) the amount of revenue that was actually distributed from the Local Aid Fund to each city and town.

Single Audit of the Commonwealth

- During fiscal year 1993, the OSA will once again be a full partner in performing the "Single Audit of the Commonwealth." This audit constitutes satisfaction of the federal requirement to audit the Commonwealth of Massachusetts' financial operations, as well as specified compliance issues. The OSA will continue to perform the following audit functions: (1) determining the relationship of Net State Tax Revenues to Allowable Tax Revenues (Tax Cap Determination), (2) reporting on agency compliance with the Office of the Comptroller's Official Year-End Closing Instructions for Cash and Revenue Management, and (3) reporting on agency compliance with the Office of the Comptroller's Official Year-End Closing Instructions for Encumbrance and Advance-Fund Management.

As a partner in the "Single Audit," the OSA will provide staff resources to audit federal programs to determine whether state agencies are in compliance with applicable federal rules, regulations, and laws. Audit staff will also conduct audit procedures that are needed to render an opinion on the Comprehensive Annual Financial Report, such as verifying certain amounts and documents at several agencies and testing selected financial transactions to determine the accuracy and quality of Generally Accepted Accounting Principles (GAAP) data gathered for the GAAP-based financial statements.

State Employee Furlough Program

- The OSA is reviewing and evaluating the extent to which the desired results and benefits established by the Furlough Program were achieved, and whether departments, authorities, and contractors have complied with laws and regulations applicable to the program.

Electronic Data Processing Audits

During the report period, the OSA issued six electronic data processing (EDP) audit reports detailing strengths and weaknesses of internal controls within computer-related areas. In addition, because of the changing data processing environment throughout the Commonwealth, the OSA's EDP Audit Division has continued to update survey information pertaining to such operations. Results from this survey allow the EDP Audit Division to schedule audit engagements based upon levels of risk to agency data centers or automated systems.

By electronically accessing the state's primary financial system, the Massachusetts Management Accounting and Reporting System (MMARS), the Division generated 52 data extracts to support OSA auditors in performing financial audits. Data extracts provide detailed information on financial transactions and can significantly reduce the hours of manual research. Additionally, the Division generated random number reports to assist OSA field auditors in meeting statistical sampling objectives.

Audit Results

The OSA's EDP Audit Division provides expertise to evaluate internal controls relating to computer systems, which process financial data or perform critical functions within the Commonwealth. The primary audit responsibility of the Division is to conduct internal control examinations of the Commonwealth's automated systems and processing environments. The objective is to determine whether sufficient controls are in effect to ensure that automated systems can be relied upon and that processing is performed in an accurate, complete, and timely manner. The Division conducts audits of application systems, systems under development, and data processing facilities. The audits may include examinations of access security, environmental protection, computer operations, resource management, program-change control, data integrity, EDP-related contracts and procurement, disaster recovery/contingency planning, backup of magnetic-storage media, and microcomputer-based systems.

Disaster Recovery and Contingency Planning

The overall objective of disaster recovery and contingency planning is to ensure that computer operations which are critical and important can be promptly regained in the event of significant disruptions or loss of processing capabilities. Further objectives of contingency planning are to safeguard data, programmed software, and critical documentation; to ensure employee safety; to minimize security exposures and system damage; and to reduce the time required to recover from events which could significantly delay or prohibit processing. Examples of deficiencies in these areas are:

- Bridgewater State College did not have a detailed disaster recovery and contingency plan for its computer operations. However, the College has made progress in addressing contingency planning and expects to be in full compliance with the OSA's recommendations pertaining to disaster recovery by the end of calendar year 1992.
- Massasoit Community College needed to update its disaster recovery and contingency plan to reflect the change in its current system configuration. The College has had adequate disaster recovery plans in the past and had conducted tests to assess the impact of loss to automated processing. However, the College did not have an agreement with a compatible off-site processing location should emergency processing capabilities be needed. At the time of the audit, the College was attempting to identify a viable alternate processing site.

Disaster Recovery and Contingency Planning

Continued

- Springfield Housing Authority did not have a disaster recovery and contingency plan to ensure that critical data processing operations could be regained for its computer center. The OSA recommended that the Authority assess the criticality of its automated systems to identify application priorities and critical resources. Based upon this assessment, the Authority should then develop and test a disaster recovery plan to ensure that critical and important processing could be regained in a timely manner after a disaster.
- University of Massachusetts/Dartmouth failed to have a written disaster recovery plan to ensure that critical data processing operations for administrative and academic functions could be effectively regained should a disaster render the data center inoperable. Additionally, the University had not entered into an agreement with either another public education institution or a private vendor to supply the necessary off-site processing capabilities should extended computer downtime occur. The University has since acted upon the OSA's recommendations by entering into a contractual agreement with a private vendor for disaster recovery services.
- Westfield State College did not have a formal disaster recovery and contingency plan for its computer operations. The absence of an adequate disaster recovery plan could adversely affect administrative functions, such as payments and billings, should a disaster occur. The OSA recommended that the College conduct a criticality assessment and develop a disaster recovery plan based upon its results and user needs. The College responded by recognizing the need for a comprehensive recovery plan and further stated that its development and implementation will occur during the 1992-1993 academic year.

**EDP-Related
Inventory**

State-owned or leased computer-related equipment should be properly tagged with inventory numbers that should be recorded on a detailed inventory list. In the following instances, inventory controls needed improvement to ensure that data processing equipment was properly accounted for and protected against loss or theft:

- University of Massachusetts/Dartmouth did not provide centralized control over EDP-related hardware and software, including microcomputer hardware and software. Although equipment had been properly tagged and labeled and periodic inventories had been performed, there were numerous instances where computer-related equipment was not included on the University's master inventory list. Additionally, a combined total of 1,387 pieces of hardware and software equipment were out on loan to University staff, with some equipment being loaned as far back as 1987. The OSA recommended that all computer-related equipment be included within the University's master inventory list, that a central receiving area be developed to receive and tag all incoming computer equipment, and that the University immediately develop and implement policies on loaning valuable computer equipment to its staff.
- Westfield State College, while providing adequate EDP-related inventory controls over computer equipment within the College's data center, did not adequately protect equipment located elsewhere throughout the College. OSA tests disclosed that many computer-related items could not be found; certain hardware items were found in locations other than those indicated on the College's inventory list; and certain items were neither tagged nor properly recorded. The OSA recommended that the tracking and recording of EDP-related equipment be strengthened by re-evaluating the College's hardware inventory procedures.

Environmental Protection

Proper environmental protection for a data center and media storage room serves to minimize significant risks to the safety of staff and equipment. In addition, significant risk of damage to the data center itself, as well as to other areas of the agency's physical plant, is minimized with adequate environmental protection.

- Westfield State College failed to provide adequate environmental protection for its data center and off-site storage location. The OSA found that the College lacked smoke, fire, and water detectors, as well as an automated fire-suppression system, thereby risking injury or damage to staff, equipment, and data. The OSA recommended that the College make environmental protection issues a priority. The College replied that it would determine the most effective method to equip its data center and off-site storage location with necessary detection and protection devices.

Off-Site Backup and Storage

Off-site storage of backup magnetic media and software is necessary to prevent the loss of important data and to protect an agency's investment in computer software should on-site backup copies be destroyed. Failure to store critical information off-site places at risk an agency's ability to restore and resume critical processing within an acceptable period of time.

- Westfield State College lacked adequate tape-management policies and procedures and access security controls over off-site storage of backup computer media. Although tapes stored off-premises were kept in a locked storage area, an inventory list of these tapes was not maintained at the off-premises location to provide an accurate record of backup media. This list would be useful if the College were to suffer a disaster at its main processing site destroying the on-site inventory list. The audit also indicated that backup copies for critical microcomputer-based applications and data were not stored off-site. The OSA recommended that the College develop and implement policies to address the security of backup computer media stored off-site.

Physical Security Controls

Adequate physical security for a data center serves to minimize the risk of unauthorized persons breaching security and gaining access to cause loss or damage to computer equipment or to alter or destroy data.

- Westfield State College has taken steps to strengthen physical security, yet needs to continue to develop and implement measures to provide adequate controls for preventing and detecting unauthorized access to its data center, microcomputer labs, administrative and academic offices, and its off-site storage area. The OSA found that unauthorized personnel were allowed to access the College's data center during business hours. The OSA recommended that the College perform a risk assessment to identify all EDP-related exposures and threats to physical security.

Selection and Implementation of Computer Systems

In 1989, while performing an EDP audit at a Massachusetts local housing authority (LHA), the OSA found certain system-access control deficiencies in the Authority's computer system. Because the same automated system had been purchased by, and installed at, 70 LHAs throughout the Commonwealth, the OSA initiated a state-wide audit to review the software selection and implementation process. The OSA further reviewed the level and quality of assistance provided to the LHAs by the Executive Office of Communities and Development (EOCD). During the state-wide audit, a review of EDP-related general and application controls at certain LHAs using the system was also performed.

Although the vendor's software generally performed well, was easy to use, and provided most of the functionality needed to meet the processing requirements of the LHAs, the audit disclosed certain problems with the implementation process, and serious weaknesses in the access security controls of the software which had not been identified during the selection process or subsequently by EOCD or the LHAs. These conditions placed software and data at risk to unauthorized access, modification, or deletion. The audit also noted that greater care should have been given to the initial evaluation of the system's access security provisions and that appropriate acceptance testing should have been conducted.

System Access Security

Industry guidelines or baseline controls indicate that appropriate access security controls should be in place for critical or high-risk systems to ensure that only authorized personnel obtain system access. Without system access restrictions, such as the periodic changing or deletion of passwords and user IDs, unauthorized access could be achieved, which could result in data and programs being disclosed, damaged, deleted, or modified.

- Bridgewater State College needed to strengthen access security in that passwords were not periodically changed or deleted when necessary. The OSA recommended that the College's data processing department be immediately notified of changes in job responsibilities or employee terminations so as to allow prompt amendments to system access. The College responded that it is taking steps to rectify the access problems identified by the OSA.
- Massasoit Community College had no policy in place requiring that passwords be changed periodically, thereby placing the College at risk to unauthorized system access. Since periodically changing passwords can strengthen system access security, the OSA recommended that the College establish reasonable intervals for changing passwords. Additionally, the College was advised to develop a process between its data processing and personnel departments that would identify past, present, and future employees who no longer need system access.
- University of Massachusetts/Dartmouth needed to strengthen its controls over system access security. For example, in 11 separate instances, it was disclosed that user IDs were active for employees no longer with the University. Additionally, controls were found to be inadequate to identify and remove passwords of users no longer needing system access. The OSA recommended that files of all current employees be compared to the existing password/user ID table. The University responded favorably by implementing the OSA's recommendations.

Prior Audit Results: Corrective Actions

Springfield Housing Authority

- The OSA's follow-up audit of EDP operations at the Springfield Housing Authority disclosed that it had made progress in correcting noted issues and implementing OSA recommendations from the prior audit report. Although disaster recovery and contingency planning controls still needed to be addressed, areas of EDP-related organization and management, physical security and environmental protection, computer operations, program-change control, and system-access security have been considerably improved.
- The Authority has also strengthened its overall control environment through the development of EDP-related policies and procedures within its Management Information Systems Operations Procedures Manual. Once fully implemented and enforced, these policies and procedures will help ensure adequate controls over the data processing environment.

Initiatives

Computer Virus Advisory

The OSA issued an advisory to all state secretariats, all constitutional officers, and the legislative leadership alerting them of the activation of the so called "Michelangelo" computer virus, occurring on March 6, 1992, and the "Friday, the 13th" virus, occurring on March 13, 1992. The EDP Audit Division offered its services to assist in protecting the Commonwealth's computer systems and advised on how to protect and safeguard IBM-compatible microcomputers. Additionally, the OSA obtained a limited number of copies of anti-virus software packages and with permission obtained from the software vendor, distributed them upon request to state agencies.

Enforcement Assurance: Referrals & Requests

OSA audits attempt not only to safeguard the Commonwealth's assets but to ensure compliance with the laws of the Commonwealth. Because OSA audits may identify and disclose possible violations of state and federal laws, the OSA cooperates with various enforcement agencies such as district attorneys, the Secretary of Public Safety's Office of Investigations, the Attorney General's Office, the Office of the Inspector General, the State Ethics Commission, and federal law enforcement agencies. In addition, the OSA routinely reports violations of income-reporting laws and regulations to the Internal Revenue Service and the Massachusetts Department of Revenue. Finally, during this report period, the OSA was asked to provide technical assistance to law enforcement agencies during specific investigations.

Referrals

Department of Revenue (DOR) and Internal Revenue Service (IRS)

Massachusetts Office of Travel and Tourism (MOTT)

- The OSA notified DOR and the IRS of compensation paid to a number of consultants employed by MOTT that was not reported by MOTT to these two tax agencies. IRS regulations require an entity that pays for trade or business services \$600 or more a year to an individual who is not an employee to provide that individual, and the IRS, a report of such income on a 1099-Misc income information form. Because DOR and the IRS had not been notified, the consultants may have avoided paying taxes on this income by not declaring the earnings.

Federal Bureau of Investigation (FBI)

Massachusetts Office of Travel and Tourism (MOTT)

- The OSA referred the conduct of the former Director of MOTT and other MOTT officials to the FBI for possible criminal violations of law. The OSA audit revealed various instances of possible malfeasance related to the use of travel and tourism funds.

Referrals *Continued*

Office of the Attorney General (A.G.)

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| Haverhill Housing Authority | <ul style="list-style-type: none">■ The OSA provided a report to the A.G.'s Office which revealed that weaknesses in monitoring rent collection activities, including a lack of segregation of duties, contributed to an environment in which more than \$27,000 was misappropriated over a three-year period. |
| <hr/> | |
| Marshfield Housing Authority | <ul style="list-style-type: none">■ The OSA referred the conduct of the former Chairman of the Authority's Board of Directors to the A.G.'s Office for possible violations of criminal law. The OSA audit revealed several instances of possible malfeasance related to the use of Authority funds. |
| <hr/> | |
| Methuen Housing Authority | <ul style="list-style-type: none">■ The OSA had provided a prior audit report to the A.G.'s Office which identified questionable financial activity by the former Executive Director of the Authority. Specifically, the OSA had reported that the former Executive Director controlled an unrecorded bank account through which more than \$27,000 had been deposited and disbursed. An update on this issue indicates that the Attorney General's Office, following through on an investigation of the activities in this account, presented its case to a grand jury, which has indicted the former Executive Director. |
| <hr/> | |
| North Adams State College | <ul style="list-style-type: none">■ The OSA provided a report to the A.G.'s Office which disclosed that internal control weaknesses in the College's Bursar's Office had contributed to an environment in which unexplained cash variances, totalling \$8,690, existed between College records and bank deposits. In each case, the amounts indicated on the College records were greater than those recorded on the deposit receipts, and a theft of funds was suspected. |

Office of the Inspector General (I.G.)

Marshfield Housing Authority

- The OSA referred the conduct of the former Chairman of the Authority's Board of Directors to the I.G.'s Office for further scrutiny. The OSA audit, conducted at the request of the newly appointed Executive Director, revealed \$107,882 in no-bid construction invoices, as well as numerous questionable purchases, undocumented checks, and possibly unethical practices and procurements involving the Chairman and certain local contractors.

Office of the U.S. Attorney

Massachusetts Office of Travel and Tourism (MOTT)

- The OSA referred the conduct of the former Director of MOTT and other MOTT officials to the U.S. Attorney for possible criminal violations of law. The OSA audit revealed various instances of possible malfeasance related to the use of travel and tourism funds.

State Ethics Commission

Marshfield Housing Authority

- The OSA referred the conduct of the former Chairman of the Authority's Board of Directors to the Commission for further scrutiny. The OSA audit, conducted at the request of the newly appointed Executive Director, revealed \$107,882 in no-bid construction invoices, as well as numerous questionable purchases, undocumented checks, and possibly unethical practices and procurements involving the Chairman and certain local contractors.

Massachusetts Office of Travel and Tourism (MOTT)

- The OSA referred the conduct of the former Director of MOTT and other MOTT officials to the Commission for further review. The OSA's third phase of a comprehensive review of MOTT revealed falsified travel claims, duplicate invoice payments, illegal fund transfers, and various other financial abuses resulting from a lack of oversight, deficient internal controls, and malfeasance.

U.S. Department of Labor

Department of Employment and Training (DET)

- The OSA referred DET's deficiencies in administration over its electronic data processing (EDP) equipment to the U.S. Department of Labor for its review. The OSA audit revealed that DET's control systems over its EDP equipment were inaccurate, incomplete, and duplicative; that EDP equipment could not be located; that equipment was purchased in excess of the agency's needs; that equipment maintenance invoices were paid without verification; that a lack of controls existed over disposition of surplus equipment; and that DET did not control equipment provided to certain contractors, resulting in potential waste, abuse, and misuse of millions of dollars in state and federal funds.

Request

Office of the Attorney General (A.G.)

Office of the Sergeant-at-Arms

- At the request of the A.G.'s Office, the OSA conducted a review of certain salary payments made to a court officer employed by the Office of the Sergeant-at-Arms. The audit disclosed that the former court officer had received approximately \$124,550 in salary and benefits in excess of the amount to which he was entitled.

Division of Local Mandates

The Division of Local Mandates (DLM) was created by Proposition 2 1/2 to help ensure that no cost obligations are passed on to cities and towns by the Commonwealth without state funding. A primary function of DLM is to determine whether laws, rules, or regulations, either proposed or in effect, are subject to this provision of Proposition 2 1/2 and to determine cost impacts on cities and towns. (For a listing of DLM determinations and cost studies for the period January 1, 1992 to June 30, 1992, see Appendix II, p. 89)

In addition to making mandate decisions, DLM is authorized under Chapter 126 of the Acts of 1984 to periodically review and make recommendations to the General Court regarding any laws and regulations having a significant financial impact on cities and towns. Such reviews include cost/benefit analyses and recommendations for amendments when appropriate.

Legislative Studies

DLM maintains a Legislative Review Program to analyze draft and pending legislation and to provide assistance to the Legislature on mandate-related issues. To ensure that the local cost impact of legislation is considered by the General Court, DLM reviews thousands of bills, prepares preliminary cost studies when appropriate, and contacts members of the Legislature to make them aware of DLM concerns. In addition, DLM responds to requests for opinions and cost studies from individual legislators, legislative committees, municipalities, and governmental associations.

Pending Legislation Relative to Braille Literacy

At the request of Representative Mark Roosevelt, House Chairman of the Joint Committee on Education, Arts, and Humanities, DLM reviewed proposed redraft legislation relating to braille instruction to determine its impact on municipal budgets. This legislation would require braille instruction for certain students, assessments of the appropriateness of braille instruction, teacher certification in braille competence, and the establishment of an advisory council on braille literacy.

With one possible exception, all provisions of this bill are beyond the scope of Chapter 29, Section 27C, the Local Mandate Law, because the costs they impose are federally mandated or relate to services mandated by the state prior to 1981. The Local Mandate Law does not apply to federal mandates or govern state laws or regulations which impose no greater cost than applicable federal mandates. Further, Chapter 29, Section 27C does not apply to state laws which require no greater compliance costs than state law in effect prior to 1981.

The one provision that could be determined a state mandate is the requirement that the Department of Education "ensure that schools within its jurisdiction purchase written material that is accessible to blind persons, either directly or through adaptation." This language may be broader than pre-1981 state law and existing federal requirements. Unlike existing state and federal law, this language does not relate to the needs of an individual student. Further, it is not clear how much or what types of accessible written material must be purchased. The federal Americans With Disabilities Act of 1990 clearly requires that reasonable accommodations be made so that disabled individuals may participate in public activities. To the extent that the above quoted language may require more than "reasonable accommodations," it could fall within the scope of the local mandate law.

Status: A redraft bill, House 5675, eventually received a favorable report from the Joint Committee on Education, Arts, and Humanities and was sent to the House Committee on Ways and Means.

**House 5330
Sections 112 & 282**

An Act Making Appropriations for the Fiscal Year Nineteen Hundred and Ninety-Three for the Maintenance of the Departments, Boards, Commissions, Institutions and Certain Activities of the Commonwealth, for Interest, Sinking Fund and Serial Bond Requirements and for Certain Permanent Improvements.

At the request of Representative Suzanne M. Bump, House Chairwoman of the Joint Committee on Commerce and Labor, DLM reviewed Sections 112 and 282 of the Governor's proposed fiscal year 1993 state budget to determine their financial impact on municipal budgets. These sections would repeal Chapter 23 of the General Laws and Sections 1 through 10A of Chapter 150 of the the General Laws, effectively eliminating the Board of Conciliation and Arbitration (BCA). At question was the application of the mandate statute to the resulting costs to municipalities for the purchase of private mediation services.

DLM determined that although this change would result in significant new costs to cities and towns, they are not the type of costs from which the local mandate law provides relief. The Commonwealth has no obligation under Proposition 2 1/2 to reimburse cities and towns for the expenses of obligations imposed prior to January 1, 1981. Although this new law would take effect on or after January 1, 1981, municipal obligation to participate in mediation dates back at least to 1973.

Status: The Board of Conciliation and Arbitration was funded in both the House and Senate budgets and is included in Chapter 133 of the Acts of 1992, the fiscal year 1993 budget.

**Pending
Legislation
Relative to
Recycling**

During the last reporting period, DLM responded to a request of Representative Steven Angelo, House Chairman of the Joint Committee on Natural Resources and Agriculture, to determine the financial impact on municipal budgets of House 137, An Act Promoting Recycling, Waste Reduction, and Composting in the Commonwealth. This bill, filed in the 1991 session, would have required cities, towns, and solid waste districts to operate recycling and composting programs by July 1996.

In 1992, similar bills filed included House 2130 and House 2338. To advise the General Court of the estimated state funding necessary for municipalities to implement these programs, DLM conducted a financial effect study. This study examined the methods and costs of existing municipal waste management services and projected the cost of tailoring existing practices to comply with state-mandated recycling and composting requirements.

Cities and towns use two basic methods of solid waste collection: curbside pickup and drop-off centers. About 80%, or 2.4 million tons of the residential solid waste generated annually in Massachusetts is collected by curbside pickup communities, representing 45% of all cities and towns.

Experience with existing, voluntary local recycling programs indicates that municipalities using the drop-off method could incorporate mandatory recycling with little or no adverse budgetary impact. However, only a few of those using the curbside method for recycling could do so without increases in waste management budgets.

DLM focused its review on 23 curbside communities that currently represent the most active recyclers in the Commonwealth. However, none of these communities source-separate the complete array of recyclable goods and materials targeted by the several mandatory proposals DLM reviewed. A legislative mandate that includes a greater variety of materials would impose an additional cost for these and other affected municipalities.

The study also showed that disposal cost savings from recycling and revenue from the sale of recycled materials would not commonly offset the additional costs of implementing and operating recycling programs.

**Pending
Legislation
Relative to
Recycling**

Continued

Highlights of the study:

- Of the 23 communities surveyed that have instituted curbside recycling and composting programs, 18 spent an aggregate \$2.8 million more per year recycling. Individually, waste management cost increases ranged from 2% to 29%. On average, waste management costs for these 18 communities increased by \$44 per diverted ton, or 11% of municipal solid waste budgets, with one community's increased cost exceeding \$94 per diverted ton.
- Recycling and composting reduced the solid waste management budget of the other five municipalities. Total savings for this subset of the sample was \$695,724, or a savings of \$27.40 per diverted ton. The average savings was 4.2% of municipal solid waste budgets.
- Based on recent cost data, all but a few of the 158 municipalities that provide curbside collection of solid waste will be required, at least in the short run, to spend additional funds to implement a mandatory recycling program.
- Communities that utilize drop-off centers are likely to realize cost savings.
- Markets for recyclable materials have not performed well and are not generating sufficient revenue to substantially reduce the cost of diversion. This condition will continue unless demand is stimulated. Also, enactment of the Bottle Bill has taken most aluminum and plastic, the major revenue sources, out of the municipal waste stream.
- Private industry contract bid prices for recycling pickup and reuse have escalated significantly, with recent bid prices averaging approximately \$130 per ton compared to \$90 per ton for multi-year contracts in effect at the time of our survey.
- DLM estimates the short-term additional annual cost impact of mandatory recycling on cities and towns to be within the range of \$16.4 million to \$30.6 million per year. The \$16.4 million estimate is based on historical data, while the \$30.6 million estimate applies the recent \$130 per ton average contract price for pickup and diversion. Therefore, using a more realistic approach, it is more likely that \$30.6 million per year would be required.

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- Many communities may suffer additional financial losses because of existing long-term contracts that commit minimum tonnage deliveries to incinerators. In other words, tonnage diverted through recycling would still have to be paid for under these existing contracts.
 - The percentage of material diverted (diversion rate) from solid waste disposal to curbside recycling and composting from our sample was 22%.

DLM recommendations:

- Any mandatory recycling program initiated by the Commonwealth should be funded sufficiently to prevent any adverse impact on local budgets. Based on DLM's study, up to \$30.6 million per year for the next few years would be necessary to mandate that all curbside collection cities and towns recycle.
- If adequate state funding is not available, the Commonwealth should establish a voluntary program with state funding incentives. DLM's report shows the impact of partial state funding proposals and demonstrates the levels of participation that could be achieved at various levels of state funding.

Status: DLM's report, "A Financial Effect Determination of Mandatory Recycling on Massachusetts Cities and Towns," was submitted to the General Court in June 1992. The Joint Committee on Natural Resources and Agriculture reported an amended bill to the Senate which would provide a measure of financial assistance to cities and towns. This bill, Senate 1642, would also provide that no municipality may be compelled to comply with recycling mandates unless sufficient state funding is provided to assume any increased local costs. The Senate Committee on Ways and Means was reviewing this proposal as this reporting period ended.

Mandate Determinations

Cities and towns are entitled under the mandate statute to petition DLM for a mandate determination on any post-Proposition 2 1/2 law, rule, or regulation believed to impose a municipal cost burden. A listing of all DLM determinations made during this reporting period is included in Appendix II. (See p. 89) The following are two examples.

803 CMR 3.01, 3.02 Law Enforcement Agency Processing System/Criminal Justice Information System (LEAPS/CJIS) Telecommunications: User Fee

In response to petitions from several cities and towns, DLM reviewed the new LEAPS/CJIS telecommunications user fee imposed on municipal police departments which have chosen this system. The fee, determined by a formula, covers the telecommunications costs of the LEAPS/CJIS network and pays for a portion of the maintenance costs for the CJIS mainframe and system software. In anticipation of revenue generated by this new user fee, the Legislature reduced the Criminal History Systems Board's budget.

DLM determined that the local mandate law does not apply to this fee. In general, the local mandate law prevents the Commonwealth from mandating new cost or service obligations on municipalities without state assumption of the cost. However, this state funding rule does not apply to state laws or regulations governing voluntary local activities. Since participation in the system is voluntary, state action affecting the cost of using it would not invoke the local mandate law.

Nonetheless, municipalities received fiscal relief with the passage of Chapter 23, Section 41, of the Acts of 1992. This fiscal year 1992 supplemental budget directed the Criminal History Systems Board to reimburse municipalities for the LEAPS assessment fees paid this year. In addition, funding in the amount of \$3,362,547, included in the fiscal year 1993 budget, restores monies previously cut from the Board's appropriation.

**Chapter 610
of the Acts of 1989**

Storage and Maintenance of Death and Birth Records

At the request of the Town of Tewksbury and Senator Patricia McGovern, DLM provided a cost estimate of Chapter 610 of the Acts of 1989. This law requires that birth and death records previously maintained at the Tewksbury State Hospital be transferred to the Tewksbury Town Clerk. Neither the statute nor any other legislative act provides a state appropriation to finance the expenses of the transfer and subsequent maintenance of these records. These expenses include, among others, the cost of a storage facility to safeguard the documents pursuant to public records laws and the cost of providing the public with access to these records.

DLM estimated that it would cost Tewksbury \$37,668 to implement this law.

Funding in the amount of \$37,668 was included in Chapter 153 of the Acts of 1992, a supplementary budget. Governor Weld vetoed this line-item appropriation.

Office of the State Auditor: Legislative Agenda

The legislative package developed and presented to the Legislature by the OSA addresses significant audit results and, additionally, seeks to improve the efficiency and effectiveness of state government. The package, therefore, complements aggregate audit recommendations by suggesting systemic improvements.

The following is a summary of enacted and pending legislation from the OSA's 1992 legislative package.

Enacted Legislation

Chapter 133 Outside Section 211

Budget Amendment Relative to Oversight of Foundations at Institutions of Public Higher Education

Legislation filed by the OSA relative to the monitoring of private foundations at institutions of public higher education was included within a comprehensive budget amendment setting forth guidelines for establishing and operating these organizations. The amendment to Chapter 133, Outside Section 211, authorizes the OSA to conduct audits of foundations or organizations established or controlled by a public college or university upon request of the Higher Education Coordinating Council or upon the initiative of the State Auditor.

Such audits may include, but are not limited to, an examination of public funds transferred to or expended from foundation accounts, use of employees paid with public funds to staff the foundation, contracts or agreements between a foundation and a public college or university, and foundation books and records as the State Auditor deems necessary and appropriate. The intent of this new law is to ensure that private foundations and similar organizations are subject to the same accountability and financial monitoring as college trust fund activities.

Pending Legislation

House 4

An Act Concerning Reimbursement for the Costs of Special Education

This bill would direct the Department of Education to establish a Medicaid Reimbursement Pilot Program in six local school districts. The goal of the Pilot Program is to increase the use of Medicaid by local school districts to fund eligible health-related special education services. Currently, these services are entirely paid for by state and local funds. This bill would also repeal a provision in current law that prohibits school districts from receiving reimbursement as providers of health services under the Medicaid program. Without such repeal, Massachusetts cities and towns may contract with vendors who are Medicaid providers, but are unable to take full advantage of Medicaid reimbursement opportunities. House 4 would also require that school districts be permitted to retain all funds received under the provisions of the bill.

There are currently at least nine states collecting special education Medicaid reimbursements or are in the process of establishing such Medicaid reimbursement programs. In the 1992 budget, the Legislature, in response to an OSA recommendation, amended the special education law to allow school districts to bill private third-party insurers for health-related services. It is even more important, because the financial impact would be far greater, to allow school districts providing eligible services to bill the Medicaid program.

House 4 was heard by the Joint Committee on Education, Arts, and Humanities and incorporated, in part, in House 5554, the Education Committee's comprehensive special education bill. House 5554 received a favorable report from the Committee and is awaiting further House action.

House 5608

An Act Clarifying the Scope of the Local Mandate Law

This bill would clarify the scope of municipal protection provided pursuant to Section 27C of Chapter 29, the so-called local mandate law. The local mandate law provides that any law taking effect on or after January 1, 1981 imposing additional costs upon any city or town will be effective only if fully funded by the Commonwealth or locally accepted. In addition, it provides that any administrative regulation and any law granting or increasing exemptions from local taxation are not to be effective until fully funded by the Commonwealth.

Certain court decisions over the past few years have both narrowed the scope of the mandate law's protections and created confusion. Accordingly, and consistent with the law's original intent,

House 5608 would define "local mandate" to include post-1980 state laws and regulations that require a municipality to make additional expenditures to maintain any existing local activity, to undertake a service previously performed by the Commonwealth or by a county, or expand a contracted service. This would establish a more meaningful standard for dealing with mandate issues and would reduce tensions between state and local governments in facing limited resources.

House 5608 received a favorable report from the Joint Committee on State Administration and is currently pending before the House Committee on Ways and Means.

House 5796**An Act Providing for Uniform Administrative Standards in the Audit of Federal Funds Received by State Agencies**

This legislation would provide for uniform standards and overall coordination in the audit of designated federal grant funds. Under this bill, the OSA would receive notice of federal grant funds to be audited, would assist in setting the scope and standards for various kinds of audits, and would also receive such audits completed by private firms. The intent of the legislation is to ensure that agencies contract for and obtain audits meeting the requirements of all federal and state statutes and regulations and that audit duplication and expense be reduced.

The federal Single Audit Act of 1984 created many opportunities for joint federal-state audits that reduce duplication by allowing one audit to satisfy federal and state requirements. The state, for example, now closes its books each year with a single audit done jointly by the State Auditor's Office and a private auditing firm. (See p. 7) The State Auditor's Office also audits all federal financial assistance grants to public colleges and universities. Much of the auditing of federal funds, however, is done by private auditing firms contracting with individual agencies. Housing authority audits can be cited as an example of how this generally effective practice can be made even better and more efficient. (See p. 7) With passage of an Outside Section in the fiscal year 1992 budget, the OSA has been authorized to prescribe state standards, in addition to any federal requirements, for these audits, thus reducing unnecessary audit duplication. House 5796 essentially broadens the concept to cover other federal grant monies.

House 5796 received a favorable report from the Joint Committee on State Administration and is currently pending before the House Committee on Ways and Means.

Private Occupational Schools: Financial Evaluations

Chapters 75C, 75D, and 93 of the Massachusetts General Laws require the Office of the State Auditor (OSA) and the Department of Education to annually evaluate the financial and academic positions, respectively, of applicants for licensure or registration as private business, trade, or correspondence schools. Schools conducted by any employers to train their own employees or a school or college chartered and authorized by the Commonwealth are exempt from the mandate of the statutes. These consumer protection statutes were enacted to ensure that private occupational schools are both academically and financially qualified to operate in Massachusetts.

Prior to their licensure or registration by the Department of Education, all such non-degree granting business, trade, or correspondence schools are required to submit financial statements to the OSA. This information is evaluated to determine the solvency of each applicant. Those schools financially qualified to be licensed or registered must then secure tuition protection in the amount recommended by the OSA.

The basic criterion used in determining the dollar amount is the maximum projected unearned tuition income, i.e., tuition or other charges collected prior to the rendering of any services. Massachusetts statutes require the OSA to determine a tuition protection amount per school in the form of a surety bond, an irrevocable letter of credit, or a term deposit account payable to the Commonwealth. This consumer protection is intended to cover potential tuition refunds to students resulting from fraud, deceptive student recruitment practices, or a breach of contract.

At the close of fiscal year 1992, there were 121 active private occupational schools operating in the Commonwealth. During the period covered by this report, the OSA performed 71 financial evaluations. Four schools were first-time applicants, 67 schools were renewal applicants, and eight schools were reclassified as inactive. The range of schools reviewed include: business administration, bartending, floral design, modeling, real estate, massage therapy, auctioning, acupuncture, computer operation, and secretarial schools.

Appendix I

Audit Reports Issued

Authority Audits

AUDIT	AUDIT NUMBER	ISSUE DATE
1. Adams Housing Authority	92-593-2	03/16/92
2. Ayer Housing Authority	92-1037-2	03/16/92
3. Brewster Housing Authority	92-659-2	04/28/92
4. Brookfield Housing Authority	92-1075-2	06/04/92
5. Canton Housing Authority	92-628-2	03/16/92
6. Chatham Housing Authority	92-629-2	06/23/92
7. Dalton Housing Authority	92-638-2	03/27/92
8. Dighton Housing Authority	92-643-2	04/28/92
9. Dudley Housing Authority	92-970-2	06/04/92
10. East Longmeadow Housing Authority	92-647-2	06/04/92
11. Hadley Housing Authority	92-670-2	04/29/92
12. Hampden Housing Authority	92-842-2	06/04/92
13. Hanson Housing Authority	92-902-2	03/24/92
14. Harwich Housing Authority	92-679-2	06/04/92
15. Hingham Housing Authority	92-674-2	03/24/92
16. Hull Redevelopment Authority	92-684-2	06/04/92
17. Kingston Housing Authority	92-686-2	04/28/92
18. Marshfield Housing Authority	91-6015-9	02/14/92
19. Massachusetts Home Mortgage Finance Agency	91-968-6	02/24/92
20. Metropolitan Area Planning Council	92-56-6	02/24/92
21. Middleton Housing Authority	92-721-2	02/11/92
22. Millbury Housing Authority	92-724-2	01/17/92
23. Millis Housing Authority	92-725-2	03/16/92
24. Montague Housing Authority	92-727-2	05/28/92
25. Nahant Housing Authority	92-728-2	06/23/92
26. Newburyport Housing Authority	92-734-2	01/27/92
27. Northampton Redevelopment Authority	92-741-2	02/19/92
28. Norton Housing Authority	91-747-2	03/20/92
29. Palmer Housing Authority	92-752-2	04/28/92
30. Peabody Housing Authority	91-754-2	03/16/92
31. Pepperell Housing Authority	92-1071-2	03/27/92
32. Provincetown Housing Authority	92-1049-2	03/24/92
33. Rockland Housing Authority	92-766-2	04/21/92
34. Rowley Housing Authority	91-768-2	01/30/92
35. Selection & Implementation of MCS Computer System for Local Housing Authorities (EDP)	90-0001-4W	06/25/92
36. Springfield Parking Authority	91-781-2	02/26/92
37. Stoughton Redevelopment Authority	92-790-2	05/07/92
38. Swampscott Housing Authority	92-792-2	04/30/92
39. Templeton Housing Authority	92-872-2	03/23/92
40. Uxbridge Housing Authority	92-798-2	04/28/92
41. Walpole Housing Authority	92-800-2	06/23/92
42. West Boylston Housing Authority	92-1278-2	02/19/92
43. West Bridgewater Housing Authority	92-810-2	02/24/92

Federally Mandated Audits of State-Administered Federal & State Programs

AUDIT	AUDIT NUMBER	ISSUE DATE
1. Avon Housing Authority	92-3020-8	03/04/92
2. Barnstable Housing Authority	92-3039-8	05/27/92
3. Bellingham Housing Authority	92-3045-8	03/23/92
4. Belmont Housing Authority	92-3016-8	06/19/92
5. Billerica Housing Authority	92-3012-8	06/10/92
6. Brookline Housing Authority	92-3033-8	02/11/92
7. Chelsea Housing Authority	91-3091-8	03/18/92
8. Chicopee Housing Authority	92-3011-8	03/05/92
9. Clinton Housing Authority	92-3023-8	06/10/92
10. Concord Housing Authority	92-3021-8	06/30/92
11. Danvers Housing Authority	92-3025-8	06/16/92
12. Dedham Housing Authority	92-3009-8	04/27/92
13. Dennis Housing Authority	92-3006-8	06/10/92
14. Easton Housing Authority	92-3080-8	04/30/92
15. EPA-Lowell	90-3107-1	02/05/92
16. EPA-Milford	91-3077-1	05/26/92
17. Falmouth Housing Authority	92-3066-8	06/30/92
18. Fall River Housing Authority	92-3060-8	03/31/92
19. FDIC-Roxbury Housing Authority	92-3056-2	01/10/92
20. FDIC-Winchendon Housing Authority	92-3055-2	01/10/92
21. Franklin County Regional Housing Authority	91-3095-8	01/23/92
22. Haverhill Housing Authority	92-3043-8	04/14/92
23. Holbrook Housing Authority	92-3008-8	02/13/92
24. Ipswich Housing Authority	91-3089-8	02/20/92
25. Lexington Housing Authority	92-3046-8	05/29/92
26. Lynn Housing Authority	92-3002-8	03/31/92
27. Massachusetts Bay Transportation Authority - Schedule of Contract Costs	92-3062-1	05/06/92
28. Massachusetts Water Resources Authority - Consultant Contract, Wallace Floyd Associates	91-3057-1	05/29/92
29. Merrimac Housing Authority	92-3013-8	06/30/92
30. Methuen Housing Authority	92-3057-8	05/19/92
31. Milton Housing Authority	92-3067-8	03/18/92
32. Newton Housing Authority	92-3088-8	01/10/92
33. North Attleboro Housing Authority	92-3038-8	01/10/92
34. North Reading Housing Authority	92-3015-8	06/19/92
35. Oxford Housing Authority	92-3035-8	03/31/92
36. Pembroke Housing Authority	92-3074-8	06/30/92
37. Quincy Housing Authority	92-3004-8	06/10/92
38. Revere Housing Authority	92-3044-8	03/31/92
39. Rockport Housing Authority	92-3027-8	05/26/92
40. Shrewsbury Housing Authority	92-3063-8	03/31/92

AUDIT	AUDIT NUMBER	ISSUE DATE
41. Springfield Housing Authority EDP-Related Controls (EDP)	92-3090-4F	06/24/92
42. Stoughton Housing Authority	92-3010-8	01/23/92
43. Stow Housing Authority	92-3084-8	06/19/92
44. Wakefield Housing Authority	92-3073-8	06/30/92
45. Ware Housing Authority	92-3022-8	04/22/92
46. Wayland Housing Authority	92-3042-8	06/04/92
47. Winchester Housing Authority	92-3007-8	04/07/92
48. Yarmouth Housing Authority	92-3047-8	03/12/92

Education Audits

1. Bridgewater State College - Data Processing Activities (EDP)	92-0177-4C	04/22/92
2. Bridgewater State College - Student Financial Assistance Programs	92-177-2	06/19/92
3. Bunker Hill Community College - Student Financial Assistance Programs	92-192-2	05/28/92
4. Cape Cod Community College - Student Financial Assistance Programs	92-193-2	05/28/92
5. Massasoit Community College - Data Processing Activities (EDP)	92-0197-4C	02/19/92
6. North Adams State College	91-183-2	03/26/92
7. North Adams State College - Student Financial Assistance Programs	92-183-2	06/19/92
8. Quinsigamond Community College - Student Financial Assistance Programs	92-203-2	06/11/92
9. Springfield Technical Community College - Student Financial Assistance Programs	92-205-2	06/19/92
10. University of Massachusetts/Dartmouth - Data Processing Activities (EDP)	92-0210-4C	06/19/92
11. University of Massachusetts/Dartmouth - Student Financial Assistance Programs	92-210-2	06/19/92
12. Westfield State College - Data Processing Activities (EDP)	91-0185-4C	06/17/92
13. Westfield State College - Student Financial Assistance Programs	92-185-2	05/21/92
14. Worcester State College	91-186-1	04/29/92

Human Services Audits

AUDIT	AUDIT NUMBER	ISSUE DATE
1. Beverly Children's Learning Center, Inc.	91-4258-3	06/10/92
2. Community Systems, Inc.	91-4257-3	05/27/92
3. Danvers State Hospital	91-249-2	04/30/92
4. Dr. John C. Corrigan Mental Health Center	92-251-2	05/28/92
5. Family Continuity Program, Inc.	92-4309-3	03/23/92
6. Nauset Workshop, Inc.	92-4300-3	06/26/92
7. Soldiers' Home in Holyoke	92-64-2	02/26/92

Judiciary/Law Enforcement

1. Hampden District-District Attorney's Office	91-1259-2	01/23/92
2. Massachusetts Correctional Institution - Lancaster	92-1310-2	01/29/92
3. Massachusetts Correctional Institution - Norfolk	91-1502	03/06/92
4. Medfield Prison Project	92-1311-2	05/29/92
5. Middlesex County District Attorney's Office	91-1256-2	03/30/92
6. North Central Correctional Institution	92-1274-2	02/24/92
7. Northwestern District-District Attorney's Office	92-1260-2	06/04/92
8. Office of the Chief Administrative Justice - Telephone Expenditures	92-5010-3	06/24/92

Other Audits

AUDIT	AUDIT NUMBER	ISSUE DATE
1. Agency Compliance with Comptroller's Year-End Closing Instructions - Encumbrance and Advance-Fund Management	92-5001-2	01/31/92
2. Agency Compliance with Comptroller's Year-End Closing Instructions - Cash and Revenue Management	92-5002-2	01/31/92
3. Board of Registration in Medicine	91-117-2	03/06/92
4. Bristol County Development Council, Inc.	90-6018-9	01/17/92
5. Department of Employment and Training - Controls over EDP Equipment	91-6013-9	06/11/92
6. Department of Environmental Management Permit Program - Access to Miles Standish State Forest	91-6019-7	05/18/92
7. Department of Food & Agriculture	91-91-2	02/28/92
8. Department of Personnel Administration	92-373-2	04/30/92
9. Department of the State Treasurer	91-85-2	02/28/92
10. Executive Office of Economic Affairs/ Massachusetts Office of Travel & Tourism	91-6017-9	03/19/92
11. Massachusetts Historical Commission	92-83-2	02/24/92
12. Office of the Sergeant-at-Arms	91-6009-9	01/15/92
13. Real Estate Asset Management	91-4002-3	04/06/92
14. State Racing Commission	92-68-2	02/28/92

Appendix II

Division of Local Mandates: Determinations & Cost Studies

LAW, REGULATION, OR LEGISLATION	ISSUE
House 2130, House 2338	Recycling
Draft Legislation	Braille Literacy
House 3327	Promoting Payment of Arbitration Awards
House 5330 ss.112 & 282	Elimination of the Board of Conciliation and Arbitration
House 5700 s.396	Elimination of the Department of Revenue's Computer-Assisted Property Appraisal Software Programs & Related Technical Assistance to Cities & Towns
G.L. Ch. 32A,s.10B	Insurance of Elderly Government Employees
G.L. Ch. 94A,s.11	Milk Price Subsidy Ordered by the Milk Control Commission
G.L. Ch. 152, s.25C (6) & (7)	Obtaining Evidence of Worker's Compensation Insurance
803 CMR 3.01, 3.02	Law Enforcement Agency Processing System/Criminal Justice Information System Telecommunications User Fees
248 CMR 2.09	State Plumbing Code Underground Injection Control
801 CMR 4.02	Department of Public Works Utility & Highway Access Permit Fees
G.L. Ch.119, s.39H	Federal Juvenile Justice and Delinquency Prevention Act of 1974
Ch. 610, Acts of 1989	Custody and Access of Public Records

RESULT	FUNDING
Redraft Approved by Committee on Natural Resources and Agriculture Sent to Senate Committee on Ways and Means	Municipal Funding Provision Included
Federal Mandate	Not Applicable
Incidental Cost Mandate	Not Applicable
No Pre-Proposition 2 1/2 State Duty to Provide Labor Mediation Aid	Not Applicable
Voluntary Participation	Funding Restored
Local Option for Municipalities	Not Applicable
Indirect Cost Mandate	Not Applicable
Incidental Cost Mandate	Not Applicable
Voluntary Participation	Ch. 23, s. 41 Acts of 1992 Directs the Criminal History Systems Board to Reimburse Municipalities that Paid Assessment Fee
Federal Mandate	Not Applicable
Mandate	Municipal Exemption in Effect
Federal Mandate	Not Applicable
Mandate	\$37,668 Appropriation Vetoed in FY 1993 State Budget

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